BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI) INVESTIGATION—PART 1

HEARING

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

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CONTENTS

Hearing held on: September 11, 1991	Page 1
Appendix:	1
September 11, 1991	127
WITNESSES	
Wednesday, September 11, 1991	
· · · · · · · · · · · · · · · · · · ·	
Altman, Robert A., partner, Clifford & Warnke, and former President, First American Bankshares	37
Clifford, Clark M., Esq., partner, Clifford & Warnke, and former Chairman of the Board, First American Bankshares	20
APPENDIX	
Prepared statements:	
Gonzalez, Hon. Henry B	128
Ackerman, Hon. Gary	132
Annunzio, Hon. Frank	133
Cox, Hon. John J., Jr.	135
Hubbard, Hon. Carroll	137
Kleczka, Hon. Gerald D.	139
McCandless, Hon. Al	140
Moran, Hon. James P.	141
Oakar, Hon. Mary Rose	143
Schumer, Hon. Charles E.	145
Torres, Hon. Esteban E.	146
Waters, Hon. Maxine	149
Wylie, Hon. Chalmers P.	152
Clifford, Clark M., and Robert A. Altman (with attachments)	155
Additional Material Submitted for the Record	
Abedi, Agha Hasan, President, BCCI, letter dated August 12, 1985, from Clark	
M. Clifford regarding termination of employment of Bruno Richter as Presi-	
dent and CEO of the New York Bank	274
Afridi, Aijal:	
Letter dated July 25, 1983, to Mr. Naqvi regarding FABNY	276
Letter dated January 12, 1984, to S.M. Shafi, Regional General Manager,	
Latin America, BCCI (Overseas) Ltd., providing background informa-	
tion on FABNY	301
Letter dated March 23, 1984, from A.R. Sakhia, BCCI, regarding Castle	
Investment Group, Fort Lauderdale, FL	302
Memo to William W. Duncan, dated May 9, 1986, regarding BCC Group's	004
Annual Conference—Luxembourg	304
Altman, Robert A.:	
Letter to himself dated June 9, 1989, regarding two-stage offering of new	00-
right shares	305
Letter to Swaleh Naqvi, BCCI, dated May 8, 1986, enclosing memoranda concerning acquisition of National Bank of Georgia	306

	Page
Letter marked "Privileged and Confidential" dated January 31, 1990, from Swaleh Naqvi in answer to Robert A. Altman's request for information about BCCI loans to shareholders of CCAH, N.V., in connection	J
with acquisition of Financial Bankshares in March 1982 Letter dated November 6, 1990, to James S. Keller, Managing Senior Attorney, Legal Division, Federal Reserve System, enclosing a memo-	312
randum dated October 29, 1990, regarding a meeting with Jim McGee and Joel Glenn Brenner of the Washington Post	314
Reserve Staff	318
Telex message dated May 4, 1986, from A.R. Sakhia regarding BCC Boca Raton deposit of \$4,200,000 in First American New York	325 326
sel, Legal Division, Federal Reserve System	327
the request of	341
Transcript of hearing before the Federal Reserve Board regarding applications of Credit and Commerce American Holdings, N.V., Willemstad, Netherlands Antilles, and Credit and Commerce American Investment, N.B., Amsterdam, Netherlands ("Applicants") to acquire Financial Gen-	
eral Bankshares, Inc., on April 23, 1981 Correspondence and memoranda relating to Mr. Ryback's letter of December 1989 inquiring about BCCI's possible participation in and	343
knowledge of financing and loans by BCCI to CCAH shareholders	525
Results of an internal audit of First American memorialized in a report from James E. Lewis to Bryan Yolles dated December 4, 1990 Internal memorandum by Lawrence Quinn to Bryan Yolles dated March 20, 1991 of an interview with David Dawson, an examiner from the	535
Federal Deposit Insurance Corporation	541 542
Amjad Awan	542 543
Bank of America news release dated January 30, 1978	544 545
Copies of correspondence between Messrs. Clifford and Altman and the	548
CCAH shareholdersBank reference for Sheikh Kamal Adham from Barclay's Bank Limited,	
London Mr. Clifford's response to conflict of interest memoranda requested by	580
Chairman Gonzalez	581
Skadden, Arps, Slate, Meagher and Flom dated September 10, 1991 Offer to purchase for cash any and all outstanding shares of the common	586
stock of Financial General Bankshares, Inc., by FGB Holding Corp	611
Annex A: Executive Officers and Directors of the Purchaser	644
Inc	647
March 12, 1981, to the Board of Governors of the Federal Reserve System regarding acquisition of Financial General Bankshares, Inc., by Credit and	
Commerce American Holdings, N.V., Netherlands Antilles, and Credit and Commerce American Investment, B.V	649
Equity Trust (Curacao) N.V., fax from Pim Ruoff to Mr. J. Griffin Lesher, Clifford & Warnke re: Federal Reserve Board's request access to CCAH records	651

Federal Reserve Bank of Richmond, letter dated February 8, 1989, to the Board of Governors of the Federal Reserve System enclosing a copy of a memorandum regarding results of investigation into current relationship between CCAH and BCCI	Page 652
First American Bankshares, Inc.:	002
Table of Contents	654
Summary of Major Issues	655
BCCI/CCAH Organizational Charts	657
Individual Profiles	661
Full Chronology of BCCI and First American Bankshares, Inc.	665
Chronology of Clifford and Altman Dealing in CCAH Stock and documen-	000
tation of transactions	699
Alleged BCCI Criminal Activities	763
Legislative Basis For Hearing	765
Early History of First American Bankshares, Inc.	767
District Attorney, New York County, News Release	769
Federal Reserve Press Release	774
1981 Federal Reserve Change of Control Order	777
Powered Contact Letters	780
Personal Contact Letters List of participants in BCCI Conference in Luxembourg, 1986	782
Quotation Sheets	783
Federal Reserve Orders of Investigation of BCCI	792
Transcript of Amjad Awan Tape	797
Condensed Chronology of BCCI	805
Gonzalez, Hon. Henry B.:	000
Letters dated August 21, 1991, requesting Messrs. Clark M. Clifford and	
Robert A. Altman to testify before the Committee on September 11, 1991	810
Memorandum of Law, prepared by Barbara Timmer, General Counsel,	010
Committee on Banking, Finance and Urban Affairs	817
Miscellaneous correspondence concerning BCCI's efforts to acquire Finan-	
cial General Bankshares. Inc.	833
cial General Bankshares, Inc	
regarding "Half Yearly Review of FAB"	839
Lesher, J. Griffin, of the firm of Clifford & Warnke, Attorneys and Counselors	
at Law, letter dated January 7, 1991, to J. Virgil Mattingly, Jr., General	
Counsel, Legal Division, Federal Reserve System regarding Federal Re-	
serve's request for a year-by-year summary of the shareholders of CCAH	
from 1982 to 1990	840
Minutes of U.S. Marketing Meeting held in New York on April 24, 1985	859
Minutes of Americas Coordinating Committee, held on June 2, 1985, at BCC	
Caribbean Regional Office in Miami	866
Minutes of third meeting of Americas Coordinating Committee of Bank of	
Credit and Commerce International, held in New York on July 22, 1985	874
Minutes of the meeting of the Board of Directors of BCCI Holdings (Luxem-	
bourg) S.A. held on March 30, 1989, in Paris	879
Minutes of the meeting of the Board of Directors of BCCI International S.A.	
held on November 17, 1988 in Paris	881
Money Laundering Alert, Vol. 2, No. 11, August 1991; various articles on BCCI	
and alleged money laundering	885
and alleged money laundering	
ing Forms Are Phony," Money Laundering Alert reveals	893
Naqvi, Swaleh, letter dated September 4, 1984, informing the president that	
Mr. Clifford and Mr. Altman propose nominating Mr. Robert Pursley as a	
director on the Board of First American Bank of New York	894
News release dated September 11, 1991, regarding a report issued by Hon.	_
Chalmers P. Wylie regarding BCCI's involvement in First American Bank	896
House Banking Committee Minority Staff Report dated September 10,	
1991, entitled "BCCI and Its Activities in the United States"	898
Sami, Abdus, telex dated January 1, 1978, to Agha Hasan Abedi, regarding	
acquisition of FGB	966
Sources of Payments to Clifford, Altman and Related Parties—The BCCI	0.00
Connection. Submitted by Hon. Henry B. Gonzalez	969

	Page
Task Force on Terrorism & Unconventional Warfare, House Republican Re-	
search Committee; Executive Summary, BCCI—An Introduction, September	
4, 1991	970
Task Force on Terrorism & Unconventional Warfare, House Republican Re-	
search Committee; BCCI—Between Peru and Washington, DC, September	004
10, 1991	984

BANK OF CREDIT AND COMMERCE INTERNA-TIONAL (BCCI) INVESTIGATION—PART 1

WEDNESDAY, SEPTEMBER 11, 1991

House of Representatives, Committee on Banking, Finance and Urban Affairs, Washington, DC.

The committee met, pursuant to notice, at 9 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman

of the committee] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Neal of North Carolina, Hubbard, LaFalce, Oakar, Vento, Barnard, Schumer, Frank, Erdreich, Torres, Kleczka, Kanjorski, Kennedy, Hoagland, Neal of Massachusetts, Waters, LaRocco, Orton, Bacchus, Moran, Cox, Weiss, Slattery, Ackerman, Wylie, Leach, McCollum, Roukema, Bereuter, Ridge, Roth, McCandless, Stearns, Paxon, Duncan, Campbell, Hancock, Riggs, Nussle, Armey, Thomas, Johnson, and Sanders.

The CHAIRMAN. The committee will please come to order.

The Chair will advise that it will adhere strictly to the rules as soon as the two witnesses have been seated, and are prepared to read the testimony. I will ask that in the strict accordance with the rules photographers that are immediately in front of the witnesses will have to move from between the witness table and the committee seats.

We will protect to every extent possible the rights of witnesses, the rights of the Members, and all concerned as set forth by the rules of the committee and the House of Representatives, so I wanted to advise that as soon as we reach the point where the witnesses will be presenting their testimony that I will insist that the gentlemen there crouched in front of the witness table move from between the table and the dais.

This morning we open the first of a series of hearings, and I want to emphasize, this is going to be like the preceding hearings. The committee has not completed the series of hearings that it began in 1989. We have yet to issue a final report with respect to our investigation on S&Ls and this committee is acting under rule X, and rule XI in an investigatory capacity, and I will refer to that later as I outline the rules of the game to my colleagues.

This is the first of a series of hearings on how the Bank of Credit and Commerce International, which is tantamount to a racketeering bank, gained a foothold in the United States and how regulators and bank officials failed to detect or understand or report the invasion. We have long been critical of jurisdictions like Panama, the Cayman Islands, and other offshore countries for their loose banking regulations and their willingness to become havens for outlaw financial entities that fuel drug cartels, tax evasion schemes, and other illegal activities. Now we find BCCI on our front steps despite our vaunted, expensive, and far-reaching regula-

tory system.

The criminal shenanigans of BCCI are still unfolding around the world, but already we know of extensive money laundering schemes, allegations of connections with the infamous Medellin cocaine cartel, charges of massive fraud and involvement with Middle East terrorists. For many on this committee, and I say "for many", not all, the existence of another foreign bank entity engaged in criminal activity comes as no great surprise.

Last year, and beginning actually the year before, this committee, with plenty of vacant seats in the press section, spelled out how an agency of the Banca Nazionale del Lavoro, operating in Atlanta, GA, was able to defraud the U.S. Government and move billions of dollars of goods, including military technology, into the

hands of Saddam Hussein.

Banca Nazionale del Lavoro became Bagdad's banker in the United States before our regulatory companies at the Federal Reserve could locate Iraq on the map. In the case of the Bank of Credit and Commerce International, the Federal Reserve would have us believe that BCCI was a stealth banking operation, undetected on the regulators' radar screens. Like the Federal Reserve, our witnesses this morning, Mr. Clark Clifford, Mr. Robert Altman, profess ignorance about the depth of BCCI's involvement in First American or its holding company, Credit and Commerce American Holdings.

If we accept the stories put forward by the Federal Reserve and the two gentlemen I just mentioned, an icy chill should go through the American public. If U.S. banks can be so easily invaded by foreign operators, and if the takeovers can be kept secret so successfully, what protection exists in our banking system? What other foreign entities or criminal elements are secretly in control of U.S.

banks at this very moment?

That is a question I have been raising for 2 years. Obviously, we cannot expect the Federal Reserve to know if its performance in BCCI is an example of its investigative skill. The role of "hear no evil, see no evil, smell no evil" is not suitable for regulators, powerful law firms, or big bank executives; the people who occupy these positions are expected to know.

It is their responsibility, and neither this committee nor the American public should accept bland statements that they just didn't know. The Federal Reserve was conned in 1981 by a group of Middle East investors who we now know were front men for BCCI in the takeover of CCAH, the holding company for First American.

During the next decade, the Federal Reserve's gumshoes took it easy, ignoring tips or at best asking CCAH and First American for

assurances that all was well.

Invariably, the answer came back, no BCCI here, and the Federal Reserve was happy. As in the Salomon case, now much in the news, the attitude was "trust me". The Federal Reserve's lack of vigor is inexcusable.

However, it is true that our financial regulatory system does depend on full and truthful reports from banks and their users, di-

rectors, and legal counsel.

Our witnesses this morning provided the key assurance to the Federal Reserve in 1981 that the Middle East investors were operating on their own and not on behalf of BCCI. As the top official in First American and as legal counsel for the bank, the Clifford/Altman team was in a unique position to know about BCCI's involvement.

Apparently, some key decisions, such as who was to run First American's affiliate in New York, were made only after consultation with BCCI.

Mr. Altman turned up consistently at international conferences of BCCI insiders in Vienna, London, and Luxembourg. If Mr. Clifford and Mr. Altman did not understand BCCI's role in the takeover of First American, they did have an appreciation of the value of BCCI's money.

On three different occasions in 1986, 1987, and 1989, Mr. Clifford and Mr. Altman purchased large blocks of shares of Credit and Commerce American Holdings, financed by \$15 million in lines of

credit from BCCI.

In March 1988, Mr. Clifford sold 3,200 shares, and Mr. Altman dumped 1,600 shares at the inflated price of \$6,800 per share, three times what they had paid for the shares less than 2 years earlier. Gross profits for Mr. Clifford apparently totaled at least \$11.3 million and for Mr. Altman, \$5.6 million.

To complete the BCCI money loop, the purchaser at the \$6,800

To complete the BCCI money loop, the purchaser at the \$6,800 per share price was none other than another BCCI front man. These lucrative inside stock transactions were not the only insider

games that profited these gentlemen.

Since I have been chairman, I have consistently underlined and stressed the importance in the breakdown of the system of bank

board of directors.

Anybody who wants to follow the course of action I have outlined for this committee will see that this is the common thread in every one of these investigations. If these board members look upon their board membership as opportunities to use these institutions as their personal piggybanks, the system is broken down.

As soon as they assumed the executive chairs of CCAH and First American, legal business started flowing from the bank to the Washington law firm, Clifford and Warnke. We are still trying to determine the exact amount of the fees, but some reports suggest

they may have exceeded the stock profits.

Aside from the millions that flowed from the bank to the law firm this arrangement created the potential for serious conflicts of interest, by depriving the bank of ongoing objective legal advice.

It is a practice that I saw and, I repeat, I have criticized in the case of every other financial institution we have looked into. Bank insiders cannot serve one moment in a decisionmaking capacity in the bank and in the next moment don their legal caps to give sanction to these same decisions.

It is an unsafe and unsound practice, regardless of the personalities involved. It is something that the Office of the Comptroller of the Currency and the Federal Reserve Board should have stopped long ago, and, in fact, as long as I have been on this committee, I

had always assumed that they were on top of that.

With the headlines and the obvious prominence of our witnesses, it will be difficult to keep these hearings on track, particularly since the unfortunate release in this morning's newspaper here of material that, at least, as far as the majority is concerned, we had preserved intact.

Journalists and press sources repeatedly requested the material and we had said no, wait until the hearings, and I regret that, but that is something I will take up later on with my distinguished

member, Mr. Wylie.

I hope the Members on both sides will be cognizant of this committee's jurisdiction and the need to develop the facts that will help us to prevent another BCCI from walking secretly into the U.S. banking system.

We have a significant section in H.R. 6 reported from this committee in June dealing with the regulation of foreign banks. As we move through the testimony and as we go into these hearings, I hope Members will watch carefully for evidence that will support that section and possibly strengthen amendments.

These hearings are called pursuant to the jurisdiction, as I said before, assigned to the Banking, Finance and Urban Affairs Committee in rule X, and I might say also rule XI of the Rules of the

House of Representatives.

With that, I defer to our minority leader, Mr. Wylie.

[The prepared statement of Mr. Gonzalez can be found in the ap-

pendix.

Mr. Wylle. Thank you very much, Mr. Chairman. I want to commend you for holding these hearings today and applaud you and your staff for the cooperation you have exhibited during the BCCI investigation and in developing any and all information surrounding this scandal.

I also want to commend the Federal and State agencies which have been most cooperative with the staff during the course of the committee's investigation in providing information. I had originally called for an investigation of BCCI at an April 24 committee hearing, and we both agreed at that time to let no stone go unturned in

examining the activities of this criminal institution.

This has truly been a bipartisan effort, and I believe that we begin today to let the chips fall where they may as we explore the

causes behind the BCCI scandal.

The BCCI scandal is one of the greatest worldwide financial scandals that has ever occurred. I have been continually startled by new revelations concerning this renegade foreign bank. I have been particularly startled by the stories of the links that BCCI had in this country.

With our witnesses today, Mr. Clifford and Mr. Altman, this committee begins its inquiry into BCCI's links in this country and the regulators' responses. Many of us have read and heard in painstaking detail the affairs of First American Bank in its relationships to BCCI. I hope our committee investigation will provide much more detail as to that relationship.

I must say that much of the information has been quite surprising to me. The information appears overwhelming that Mr. Clifford and Mr. Altman almost certainly had to be aware that First American maintained an extensive relationship with BCCI.

Based on the witness' submitted statement and your opening statement, Mr. Chairman, I must ask the question, were our witnesses amiable dunces or were they sophisticated financial kingpins?

I believe that it is important for this committee to evaluate their knowledge and determine whether they intentionally deceived the regulatory system. Only then can we judge what legislative solu-

tions may be appropriate.

As this committee continues its consideration of additional funding for the RTC and recapitalizing the BIF, it is clear that we cannot tolerate a system that permits banking directors to deceive the regulators.

Even if you accept their arguments that they had no knowledge of any BCCI link to First American, should Mr. Clifford and Mr. Altman have had a duty to investigate possible wrongdoing at their institution?

Is it possible that Clifford and Altman knew but ignored their duty to such an extent that it appears to be scandalous? Before we authorize more money for Federal Deposit Insurance, our duty is to be sure that the regulators have the necessary tools to deal with malfeasance, misfeasance or nonfeasance of directors.

Finally, I would like to reaffirm my strong support for the legislation concerning the supervision of foreign banks that you and I have introduced, Mr. Chairman. I refer to the provisions adopted in H.R. 6, the Deposit Insurance Reform bill. H.R. 6 would provide for cooperative regulation of international institutions such as BCCI. The Fed never learned concretely about First American's links to BCCI until it obtained documents from Abu Dhabi.

In regulating foreign institutions, our regulators need greater powers, and I believe H.R. 6 is a necessary first step in that direction.

Thank you, Mr. Chairman, and I look forward to hearing the testimony of our witnesses today.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Thank you. Mr. Annunzio.

Mr. Annunzio. Thank you, Mr. Chairman. I again want to congratulate you for calling these hearings today. BCCI has a notorious history as a money laundering financial institution. Almost 2 years ago, BCCI entered into a plea agreement regarding its money laundering activities in the United States.

BCCI agreed to forfeit \$14.8 million in assets which had already been seized, and to agree to cooperate in the prosecution of various low-ranking BCCI employees. Other than that, BCCI suffered no penalty as a result of its convictions. I was shocked by the liberal

terms of the plea.

On January 23, 1990, I introduced legislation to provide for the death penalty for money laundering institutions. That legislation passed the House last year by a vote of 406 to zero, but the Senate failed to act upon the bill. At the end of the session last year, the House again unanimously passed a similar money laundering bill that I introduced, but the Senate failed to act.

I reintroduced similar legislation this year, not only providing for the death penalty for money laundering financial institutions, but giving the Federal Reserve explicit authority to shut down the operations of money laundering foreign banks and agencies in this country. This legislation passed the House on June 11 by the identical 406 to zero margin by which last year's bill passed. Still, the Senate has not acted on money laundering legislation.

Senate has not acted on money laundering legislation.

Mr. Chairman, in the past 2 years the House has voted by a combined vote of 812 to zero for legislation providing the death penalty

for money laundering banks.

Three times the House has unanimously passed money laundering legislation to shut down the BCCIs of the world. Still, the Senate delays. It has included a money laundering title in its banking reform bill, but we know that the fate of that bill is cloudy. Law enforcement will not benefit by having money laundering improvements delayed by inclusion in a controversial reform legislation.

I hope that the Senate will realize that this country needs stronger money laundering laws now and it will act appropriately to take up the Annunzio death penalty for money laundering banks legislation. Maybe these hearings will send a message to our colleagues in the other Body.

Thank you, Mr. Chairman.

The Chairman. The Chair will recognize any member who has an opening statement. Mr. Leach, for 2 minutes each from here on out.

Mr. Leach. I will be briefer than that, Mr. Chairman.

I just would like to underscore that I think there are a number of issues before us today. Three stand out. One is, as banking becomes more internationalized we are dealing with a rogue bank that stands alone, is there an issue of regulation we should be dealing with?

ing with?

Second, as banking becomes more homogenized, are there tie-ins with the American thrift industry that we ought to be looking at with the BCCI problem. And third, and probably most tragically, whether international wheeler-dealers have traded on the reputation of high-ranking American political figures, and whether there is an issue of revolving-door ethics in this particular circumstance. And because of all this, and because of the internexus of the ties

And because of all this, and because of the internexus of the ties here in Washington, I would just like to underscore that this is a

very sad day for the committee.

Thank you.

The CHAIRMAN. Thank you, Mr. Leach.

Mr. Hubbard.

Mr. Hubbard. Thank you, Mr. Chairman.

I join my colleagues in commending you for holding this important series of hearings on the Bank of Credit and Commerce International. BCCI has engaged in a long list of alleged wrongdoings.

It has reportedly defrauded customers of billions of dollars, assisted organized crime, bribed public officials, made false representations about its financial condition and ownership, and laundered money for drug dealers, arms dealers, and mobsters.

If these allegations are true, then BCCI is perhaps the greatest international outlaw in financial history. Indeed, the BCCI scandal is unfolding like a suspense novel filled with international intrigue, famous personalities, allegations of crimes at the highest corporate

and government levels.

In trying to piece together what exactly happened, BCCI is becoming the Watergate of international finance, a whodunit in which we find ourselves asking who knew what and when did they

Mr. Chairman, I applaud the committee's efforts to try to get to the bottom of this controversy, and I am confident that we will succeed. Of the many issues about BCCI that need to be addressed, one

in particular stands out.

If, as it has been alleged, foreigners can confound our banking regulators, finance illicit drug traffickers, and obtain political influence in the United States, then I believe the American people

deserve an explanation as to how these things can happen.

Only then can we take steps to make sure it doesn't happen again. We do welcome our witnesses, Mr. Clark Clifford and Mr. Robert Altman. They have submitted a complete package of testimony to our committee. We look forward to their testimony.

The CHAIRMAN. Thank you, sir.

Mrs. Roukema.

Mrs. ROUKEMA. Mr. Chairman, I will be very brief.

I want to associate myself with the remarks that you made and certainly our ranking Member made with respect to not only our witnesses today, but the need for regulatory reform. I guess there are two questions here before us. Can these people be either so naive or so cunning as to have helped perpetuate this scandal for some years?

But the larger question, of course, as you have adequately pointed out, is the question of why did our regulators fail us for so long?

And that leads us, of course, to our bill, H.R. 6.

And as a member of the Barnard Task Force, where we were unable to come up with a comprehensive reform of the regulatory system, I think we should be revisiting that. And on the basis of the testimony, as these gentlemen reveal it to us today, gain useful insights as to the direction we should go, both with foreign regulation as well as domestic.

Thank you, Mr. Chairman. The CHAIRMAN. Well, thank you, Mrs. Roukema.

Yes, Ms. Oakar.

Ms. Oakar. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank you and your staff for an excellent job in preparing us for this hearings. I would like to ask unanimous consent to submit my entire statement for the record and just make a few points.

I think what is very disconcerting to me about the whole situation with BCCI is, again, the lack of Federal regulation in the over-

sight responsibilities of the Fed and other agencies.

In addition, one of the areas that I think we ought to look into is the communication and the support system that international

agencies have with our country's regulators.

The CHAIRMAN. The Chair will again have to remind the staffs that it is against the rules to congregate over on that end. For some reason, that end seems to constantly cause the various Members sitting on that extremity to complain, so I am going to ask that we insist on the rules and not stand up against the wall and conduct audible conversations in the proximity of the members.

Ms. Oakar.

Ms. OAKAR. Thank you, Mr. Chairman.

What I am concerned about, in addition to the failure of our regulators in the Fed in terms of the proper oversight of this institution's activities, is what their relationship is with international agencies of other countries that have responsibilities similar to ours.

Was there any communication in what has become this international fraud? I think that kind of question is very imminent in my mind, and I hope in the future meetings, you will invite regulators, not only from our own country, but from other countries where BCCI operated.

Finally, Mr. Chairman, to our witnesses, I am glad they showed up, and I am glad they are here to clear the air about their responsibilities. And I wanted them to know what one of my major concerns in this issue was, the many types of loan line items that you

gentlemen personally got from BCCI.

So those will be the kinds of questions that I am going to try to ask you and whether or not there was, in fact, any type of incestuous relationship between BCCI and the institutions that you had oversight over.

Thank you very much.

The Chairman. Without objection, the gentlelady's prepared text for opening remarks will be in the text at this point.

[The prepared statement of Ms. Oakar can be found in the appendix]

The CHAIRMAN. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

I join you and other members in commending yourself and Mr. Wylie for proceeding with this investigation, for the staff work that has preceded it. I am anxious to proceed and therefore will not extend my remarks, but only to say that as, I believe, the only crossover member from the Intelligence Committee, I will be pleased to provide assistance to you and Mr. Wylie on information about our Intelligence community's knowledge of BCCI and the reports that were made to the executive branch and the nature of those reports.

Thank you.

The CHAIRMAN. Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman.

I look forward to the hearing and to the exploration of the problems associated with BCCI and its affiliated and holding company actions in this country.

The thing that strikes me as being paramount in this issue is the entire fabric of international banking and our reliance upon, and agreements with, the many other nations that we have and do extend banking privileges to and financial activity with our Nation.

It seems to me that that fabric is a very fragile one, one which should not rely on other nations as we have in the past, unless there is a substantial effort to regulate, and provide standards and

regulatory controls that are necessary.

The entire economy, the global economy, now is holding up as an example of the free enterprise system, the banking and financial systems of the Western world. I think we are pointing out some of the fundamental weaknesses in that foundation and how insidious it can be and has been in this particular instance.

In fact, in many respects, I think that unless there is a substantial improvement, we will really find ourselves building an economy, an edifice in a swamp. I think that American businessmen and others that rely upon foreign credit and the regulatory structure, the Grand Cayman Islands or Luxembourg, are going to find themselves with really very, very serious problems.

These, of course, show up in our own economy. Many of the individuals that are involved, we expect—every time that a problem occurs, someone suggests that we need new laws, we need new reg-

ulations.

The fact of the matter is, I think what we really need is policemen to enforce those laws. If nobody is watching the candy store first they take the gumdrops, next they walk out with the cash register, and that is, I think, an example, a corollary to what really is occurring in this particular case. No one was watching or minding the store in the 1980's. Hopefully, in the 1990's, they will be minding the store.

The Chairman. Mr. Roth.

Mr. Rотн. Thank you, Mr. Chairman.

Mr. Chairman and Mr. Wylie, I want to compliment you for the professionalism you have displayed in this ongoing investigation.

Mr. Clifford and Mr. Altman, I have looked at the facts presented to this committee and studied your statements, and it pains me to say this: others may believe your story, but I must say I don't believe a word of it. I have looked at this case and my conclusion is that you knew and that you made millions.

that you knew and that you made millions.

This is a case where Mr. Clifford and Mr. Altman, by their actions as lawyers and as banking officials, allowed a vast criminal enterprise to gain a foothold in the United States, a worldwide network charged with money laundering, financing drug smuggling, acting as banks to the terrorists and defrauding depositors and

many other crimes.

This is really a question of ethics and morality, not a question of regulations and whether we have enough policemen. When you have a total breakdown of morality, there aren't enough laws, there aren't enough policemen in this country. Mr. Clark Clifford, a man with your reputation, the regulators relied on you.

It seems clear you used your stature to protect BCCI. The sum total of this committee's investigation is that you have been in bed with BCCI for at least 10 years and you are telling us all you got

was a back rub.

You were BCCI's lawyers at the time you were trying to take over First American. BCCI lent you \$15 million to buy this bank, and later BCCI bought back this stock, which you already controlled, at an inflated price.

No one can believe a story like that. You both made millions in the deal, and yet you tell us you didn't have a clue that BCCI was controlling your bank's stock, while you reported to BCCI regular-

ly.

It would take a lot of naivete to accept your defense which is, in essence, that you, Clark Clifford, are exactly what you called Ronald Reagan, an amiable dunce. And Mr. Clark Clifford, I don't believe that you are an amiable dunce.

The CHAIRMAN. Thank you, Mr. Roth. Your time is up.

Mr. Barnard.

Mr. Barnard. Thank you, Mr. Chairman.

Mr. Chairman, as you very well know and some other members of the committee, this subject of the BCCI goes back a long way as far as the history of Congress is concerned. Back in September 30, 1982, the subcommittee of which some of us have been on, the Commerce, Consumer and Monetary Affairs Subcommittee held a hearing under the chairmanship of Congressman Ben Rosenthal.

One of the subjects of that hearing was the acquisition allegedly by individual foreign investors of shares in the Financial General

banking shares, later known as First American Bank.

Contained in the printed record of that hearing is a transcript of the informal closed meeting at the Federal Reserve Board held on April 23, 1981, at which our witnesses today testified concerning the proposed acquisition of shares in Financial General.

One of the subjects of great concern to the Federal Reserve at that time was the role of BCCI in the acquisition. This, of course, raises a lot of doubts in some people's mind that the record, even then, discloses that BCCI had put together the investors' agreement

So this morning, when I have an opportunity, I do want to ask our witnesses some very pertinent questions about the hearings of

1982 and the meetings with the Federal Reserve.

Let me say this: I think that the regulators, the Federal Reserve in particular, because of those hearings and because of their informal meetings with the principals likewise should have been somewhat suspicious of the involvement of BCCI in the Financial General acquisition, but there are a lot of questions that need to be answered in that regard, Mr. Chairman, and I will reserve my questions until that time.

Thank you.

The Chairman. Thank you.

Mr. McCandless.

Mr. McCandless. Thank you, Mr. Chairman.

These hearings will begin to untangle a web of lies and deceit and criminal acts. Our purpose, even though we may be tempted, is not to try the case or convict the guilty. Our purpose is to determine how our regulations and regulators have or would be evaded.

In our effort to determine the facts, we are going to have to ask some tough questions, and we must be prepared to allow the chips to fall where they may. We must examine the involvement of some very important, prominent citizens. Many strong political connections are involved.

We need to know who did what, when they did it, and how they did it. We must also examine whether political connections were used to further the BCCI scheme. The actions and inactions of the regulators must also be explored. What could or should they have done to discover this scheme earlier. Are our laws strong enough to prevent something like this from happening again? These will be

very difficult but important hearings.

Mr. Chairman, I want to conclude by thanking the ranking minority Member and the minority staff for a very fine report which has brought all of this together in one package and very helpful to those of us who are going to participate in the hearings.

I yield back the balance of my time.

The CHAIRMAN. Thank you, Mr. McCandless.

Mr. Schumer.

Mr. Schumer. Mr. Chairman, I would first like to congratulate you and the committee staff for putting together this important

hearing.

The BCCI scandal is truly the mother of all banking swindles. Completing this exhaustive review so quickly was no small feat. While this committee has been examining the actions of bank regulators, my crime subcommittee has been reviewing the role played by Federal law enforcement agencies in identifying and investigating BCCI.

Some disturbing similarities are apparent. Bank regulators, like Federal law enforcement agencies, fell down on the job and failed

to aggressively pursue obvious evidence.

Over the coming months, I hope we can discover why BCCI wasn't a higher priority in the U.S. Government until it was too late. What regulators knew and when they knew it is a crucial part of this inquiry.

However, the main question before us today is whether Mr. Altman and Mr. Clifford knew about BCCI's relationship with First

American and its pyramid of holding companies.

Mr. Chairman, Mr. Altman and Mr. Clifford are asking us to believe that when their house was on fire, they didn't smell the smoke, feel the heat, or hear the alarms. They claim they were duped. I have followed this scandal closely. I have examined the substantial and steady stream of evidence which flowed through

the Government throughout the eighties.

In light of this in the close business and lawyer/client relationships between BCCI's shareholders, its officials and Mr. Altman and Mr. Clifford, I find it hard to believe they didn't know more about BCCI's interest in First American than they are admitting given the strong indications that Federal agencies had, as early as 1984, of widespread criminal activity by BCCI. I find it equally difficult to accept that our two witnesses didn't even question the motivation and activities of their business associates.

That assumes a high degree of naivete and disinterest that is out

of character of men with such business acumen.

Their explanation strains credulity to its breaking point.

Mr. Chairman, in conclusion, these are two men of great accomplishment and integrity. I would truly like to believe their version of events.

I hope their appearance today sheds more favorable light on what, until now, are rather dubious stories.

The CHAIRMAN. Thank you, sir.

Mr. Stearns.

Mr. Stearns. Thank you, Mr. Chairman.

The scandal involving the Bank of Credit and Commerce International has the potential to be a worldwide disaster for financial institutions, their operations, and the trust that people have put in them. As the investigation widens, so does the shadow this scandal casts on the U.S. financial system. It is vitally important that this committee understand the nature of BCCI's involvement in the management of several American banks and the extent to which U.S. banks, CEOs, and their directors knew of any illegal foreign interest.

We are all aware that the United States has laws that prohibit certain levels of operation by foreign banks in the purchase and operation of U.S. domestic banks. There are laws that require upfront explanations of the role a foreign bank will play when purchasing interest in a U.S. bank. These laws aren't obscure or inconsequen-

tial to people involved with financial services.

Therefore, it is critical that we understand what the bank officers of First American knew about BCCI and its relationship with the First American Bank. It is also critical that we, my colleagues, investigate the regulator oversight performance of the Federal Reserve Board in this case to make absolutely certain that proper procedures for the monitoring of these bank operations were adhered to.

I commend you, Mr. Chairman, for conducting these hearings. We must start at home and begin to clean up this mess. Ignorance or mismanagement is no excuse. I look forward to the witness' testimony, and I want to commend them for their cooperation.

The Chairman. Thank you, Mr. Stearns.

Mr. Torres.

Mr. Torres. Thank you, Mr. Chairman.

I want to echo the comments of my colleagues here today in commending you and Mr. Wylie for calling these hearings. I know the staff has spent considerable time with their exhaustive research into the operations and ownership and numerous interrelationships have come to light pursuant to their revealing documents subpoenaed by this committee.

I would want to echo the same comments made by Mr. Annunzio in saying that I have a particular interest in the revelations uncovered in the BCCI case regarding the use of domestic banking systems in international money laundering schemes, specifically, Mr. Chairman, how are U.S. banks used, how were the schemes uncovered and how can we prevent any further abuse.

ered, and how can we prevent any further abuse.

Are the antimoney laundering provisions that were approved by the House earlier this year and are currently included in the Senate Bank Reform bill sufficient to do the job? I am not sure they are, Mr. Chairman, and I think we need to take another look.

I would like to continue in the statement that I have, Mr. Chairman, but in light of time, I would ask unanimous consent that my statement be entered into the record and I yield back the balance of my time.

The CHAIRMAN. Without objection, the gentleman's statement

will be in the record.

[The prepared statement of Mr. Torres can be found in the appendix.]

The CHAIRMAN. Yes, Mr. Campbell.

Mr. Campbell. Thank you, Mr. Chairman.

First, to Mr. Altman and Mr. Clifford, I think everyone here respects that you are entitled to make your defense and no one should be prejudged and that this is not a court of law, so I, for one, look forward to hearing your explanation with no prior com-

mitment of my mind to it.

I thought, however, the point made by my colleagues, Mr. Vento, and Mr. Stearns, is quite right, for the purpose of our committee, and I would address this to all my colleagues, perhaps the most important question is why did the Federal Reserve not realize that this major bank in Washington, DC was controlled by a foreign institution? I think our focus today and in our subsequent hearings must certainly be on the failure of the Federal Reserve at least as much as of individuals, and last, as we draft legislation responsive to this crisis, bear in mind that if we impose obligations on foreign investment in this country, we will likely be hit with reciprocity by other countries against us.

If the problem is that our regulators are not doing their job, then the solution is to improve our regulation, not necessarily to impose additional barriers of a structural nature on foreign activity in the United States. You are not guilty until proven the opposite, and I

look forward to hearing your responses.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Campbell.

Mr. Kleczka.

Mr. Kleczka. I have a short statement for the record and I would ask unanimous consent that it be placed in the record.

The CHAIRMAN. Without objection, sir.

[The prepared statement of Mr. Kleczka can be found in the appendix.]

The CHAIRMAN. Mr. Duncan.

Mr. Duncan. Mr. Chairman, I have a formal opening statement. I will simply say that some of us feel that we have allowed our Federal Government to become so big that it is really out of control today. When you have an economy with too much government control, those with influence within the government make millions while those who do not have influence get the leftover crumbs or nothing at all, and I think that is a point that I hope we will give some consideration to during the course of these hearings, and I look forward to hearing from the witnesses.

Thank you.

The Chairman. Thank you, sir.

Mr. Kennedy.

Mr. Kennedy. Mr. Chairman, thank you, and let me join my colleagues in commending you for holding these important hearings. They demonstrate, once again, your willingness to take a cold look at the problems of our banking system and your determination to fix what is broken.

I also think that we owe a debt of gratitude to Senator Kerry of Massachusetts. For years now he has worked tirelessly to unearth

the evidence of corruption at BCCI.

These hearings are important for a number of reasons. BCCI scandal, in many respects, defies description. Rarely, if ever, has the world witnessed such a monumental display of arrogance and

corruption. BCCI not only operated outside the law, it had complete disdain for the law or for any principle that stood in the way of its founders' ambition to create a worldwide banking empire.

Quite simply, there was nothing BCCI would not do to expand its greedy global reach. Terrorists like Abu Nidal and dictators such as Manuel Noriega could count on BCCI to finance their missions of violence and drug laundering. BCCI lost billions in phony lines to sheiks, shysters, and crooks, just to buy influence. It set up a special department whose sole mission was to falsify documents to hide lost billions.

Many people, from Hong Kong factory workers to officials at the banks it controlled, became victims of BCCI's maniacal pursuit of power. Today this committee begins its efforts to understand what happened and to take steps to ensure that this kind of scandal is never repeated.

The central question for us is how can foreign interests completely subvert American law and dupe American regulators to gain

control of some of the country's largest banks?

For surely if they can control American banking assets almost at will, as they seem to have been able to do in the BCCI case, then not only is the integrity of our laws at risk, but so is the stability of the entire banking system. To help us answer these questions, we have one of the greatest public servants in modern American history, Mr. Clifford. His record of courageous service to our country is legendary and needs no introduction.

We are, as well, joined by his partner, Mr. Altman. Much has been written in recent weeks about what these men knew of BCCI's activities and when they knew it. Today we look forward to hear-

ing, for the first time, their side of the story.

Thanks, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Kennedy.

Mr. Hancock.

No statement? All right.

Mr. Neal of Massachusetts. Thank you, Mr. Chairman. I want to applaud your efforts for the prompt scheduling of this hearing and commend the efforts of your staff for the invaluable background information that has been compiled. Like most of you, I was shocked to hear about the BCCI scandal.

It sent tremors through the banking community, and it also had rippling effects on the economy as a whole. There is never a good time for a scandal, but I think this scandal came at the worst time

possible.

The American people are genuinely concerned about the future of our banking industry. Consumer confidence has been at an all-time low in parts of the country, such as New England. This committee has been faced with the task of reforming the banking system, and this scandal is evidence that banks are in desperate need of reform and it almost makes one hesitant about granting banks standard powers.

As each day went by, this tangled web of deceit took on new twists and turns as more prominent individuals were linked to the scandal. Hopefully, today we will start to untangle this far-reaching web by determining the roles of Mr. Clifford and Mr. Altman.

As time goes by, we will also scrutinize the role of the Federal Reserve.

One aspect of the scandal that I find disturbing is that respected men, such as Mr. Clifford and Mr. Altman, became involved in such a scandal. From their written testimony, they were unaware of BCCI's involvement with First American Bank.

I plan on pursuing this issue in my questioning. Both of them are well respected professionals, and I would have thought that they would have been concerned about potential conflicts of interest, conflicts according to the ABA model of code of ethics and conflicts that relate to their fiduciary responsibility for a corporation that is governed by law.

Even if a specific conflict did not occur, they were placing themselves in an extraordinarily awkward position. I look forward to

their testimony and the questions that will follow.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Nussle.

Mr. Nussle. No statement.

Mr. CHAIRMAN. Well, all right. Mr. Armey.

Mr. Armey. Thank you, Mr. Chairman. Let me, too, congratulate

you, and Mr. Wylie, for holding these hearings.

Mr. Chairman, we should question the adequacy of regulatory laws and even the application of these laws as we conduct these hearings, but even more we should question how politically well-connected and guileful people circumvented the laws, purposely evaded regulations, and systematically misled the regulators. This is not a question of the failure of the system, but of greed and the failure of integrity by the witnesses before us today.

Mr. Chairman, let me say at the outset as we go forward with these hearings, they will not find me either to be amiable or a

iunce.

Thank you, Mr. Chairman. The CHAIRMAN. Mr. LaRocco.

Mr. LaRocco. Thank you, Mr. Chairman, and thank you for holding this hearing. I think our central objective today as Banking Committee members must be to learn whether United States and Federal banking regulators have appropriate tools to monitor and control foreign banks' relationships with American banks and have learned whether those have been used appropriately and aggressively in this case.

This hearing goes beyond learning what Mr. Clifford and Mr. Altman knew and when they knew it. We must learn what our law enforcement officials and regulators knew and when they knew it.

We need to determine whether the actions we took in H.R. 6 at the request of Chairman Gonzalez and the Federal Reserve regard-

ing foreign banking were sufficient.

If they were not, we need to find the best ways to strengthen them. We need to look at the larger question of whether U.S. regulators can adequately cope with foreign-owned banks, operating in the United States when information from overseas is hard to verify and extradition treaties are often inadequate to allow foreign violators to be penalized.

BCCI is like an octopus shaking hands with itself, and we need to untangle this mess. I am sure the Members will address these questions as this week's hearings progress, and I appreciate the Chairman's actions in calling them.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Yes, Mr. Thomas.

Mr. Thomas. Mr. Chairman, I am kind of anxious to hear the witnesses. We might want to move forward. There is certainly a role of regulators that needs to be looked at, but certainly the players also have a responsibility in this thing, and the bankers, the lawyers, and the consultants.

I look forward to the testimony.

The CHAIRMAN. Thank you, sir.

Mr. Orton.

Mr. Orton. Thank you, Mr. Chairman.

I would like to acknowledge your role in conducting these hearings. I, too, with the people of the world and the United States find myself shaking my head in disgust as I see illegal activities and unbridled greed. I think it is important that we remember this morning as a legislative body not being a grand jury or a prosecutorial body that it is our role to determine the facts of what happened and then to apply those facts and try to determine whether any changes in legislation or regulation are necessary and whether they would, in fact, prevent this from happening in the future, so I look forward to the testimony.

Thank you.

The CHAIRMAN. Mr. Johnson.

Mr. Johnson. Not at this time.

The CHAIRMAN. Thank you.

Mr. Bacchus.

Mr. Bacchus. Thank you, Mr. Chairman.

Mr. Chairman, I agree with every word that has been said this morning in the opening statements, and I won't add much to it. I would simply like to say a personal word to Mr. Clifford.

Sir, I have admired you for many years, and I have looked forward to the day that I would have an opportunity to meet you, and I regret that it is today in these circumstances. I am very saddened to see you here.

I especially regret this event, given recent events in the world. This ought to be a time in your life when you could celebrate a significant accomplishment. You were, indeed, present at the creation, and a year or two before I was born you helped establish and implement the containment policy that has at long last finally succeeded for the United States and freedom. As we have watched the passing away of the Soviet Union, I reflect on the irony, the sad irony that we have also watched the unfolding of the sad tale of BCCI.

I am saddened that you are here today. I do not prejudge anyone, I agree with my colleagues that our role here is to find out better ways of making more effective banking regulation.

I look forward to your testimony, sir.

The CHAIRMAN. Mr. Moran.

Mr. Moran. Thank you, Mr. Chairman.

My close friend, Mr. Bacchus, has said much of what I would have liked to have said, as well, and I am glad he spoke first be-

cause he said it more eloquently.

I also share a very high level of respect for Mr. Altman because I am aware of what these two gentlemen have meant for the Washington area, Mr. Chairman. As you know, I represent a great many constituents who have deposits in First American Bank. I don't take exception with much of what has been said.

In fact, I am aware of the Price Waterhouse study that showed that BCCI may never have been profitable during its entire history, and it is entirely possible that the way they survived was by illegal activity and bribery and fraud and money laundering and influ-

ence peddling.

As long as no one probed too deep, BCCI was able to cover up its shaky banking operations by manipulating the accounts of its customers' deposits, but it is our job, Mr. Chairman, to find out why no Federal agencies were willing to probe deeper and why those who tried were discouraged from doing so. Mr. Chairman, we have to find the truth, but we also have to take something else into consideration.

In early June, bank regulators in other countries seized BCCI branches and froze their assets. This action generated massive panic as depositors in Europe and Asia attempted to collect their

money.

Had there been a bank named BCCI in this country, we may have seen a repeat of what occurred in Europe and Asia. I am very much concerned that as we investigate possible links between BCCI and First American or any other financial institution we do so in a responsible manner that does not generate undue anxiety on behalf of the depositors at these institutions.

It should be stated for the record, Mr. Chairman, that today there has been absolutely no evidence that any First American banks in the Washington area were involved in any of BCCI's illegal activities. The public must know that their deposits in First American are safe and are protected by the Federal Government.

The actions taken by the Federal regulatory agencies and by foreign governments have not affected the operations of banks owned by First American Bankshares and First American Bank, in par-

ticular.

I would hope that the media covering this hearing will provide assurances that people's deposits in these banks are safe, and I know that Mr. Clifford and Mr. Altman have that as their primary concern, the safety of their depositors' money and conduct themselves in that regard in very appropriate and professional fashion.

Thank you, Mr. Chairman. The Chairman. Thank you.

Mr. Cox.

Mr. Cox. I, too, commend you for holding these hearings in such a timely fashion, and I have a complete statement that I would like to ask unanimous consent to place in the record.

The CHAIRMAN. Without objection, so ordered.

[The prepared statement of Mr. Cox can be found in the appendix.]

Mr. Cox. Thank you, Mr. Chairman.

I do have just a couple brief comments.

As a new member of this committee, and having had to deal already with some extremely important legislation with regard to the financial community in the United States, and with sitting here today looking out at two witnesses of the stature of these two witnesses in the banking, financial, legal and governmental community in this country, I can assure you two gentlemen that I, at least for one, have no intention of finding you guilty without a trial, and I think it is extremely important to know what you knew and to hear from you what you had to say with regard to what you know.

But it may be even more important to determine what you should have known and what you should be accountable for with regard to such important facts as you chose to endeavor upon as leaders in this country.

We have been requested to look at real reform in the financial community in the United States and where concentrations of capital are being recommended and where smaller numbers of institutions are coming from even without bank reform with the assistance and encouragement of the government of the United States it is extremely important that we not undermine the faith that the American people have in that financial system.

I think that is at risk today. You may be part of what is creating that loss of faith and I think it is extremely important what we hear from you and what we conclude from these hearings to deter-

mine how we go forward.

I commend you, Mr. Chairman. I hope these hearings proceed in a responsible way and we, as a committee, are able to come to some reasonable conclusions as to what in fact this government can, if anything, do about assuring that the future of the banking and finance in their country goes on in a sound and stable fashion.

Thank you, Mr. Chairman. The Chairman. Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

I join my colleagues also in commending you. I will be brief because we are anxious to hear from the witnesses today.

Let me say that from my perspective there are two questions involved, one broad and one narrow. The narrow question is what was the role of Bob Altman and Clark Clifford in their capacity with regard to BCCI and First American? Needless to say, our witnesses today have tough and difficult questions to answer. We are

all looking forward to your explanations.

The broader question and the more serious question that I think all Americans should be focused on is the question of how in the world could the CIA, the DEA, the Department of Justice, the Federal Reserve, the Department of the Treasury be unable or unwilling to pursue evidence that was clearly in their hands with regard to BCCI's involvement in the American banking industry? It is unthinkable for this member to realize that the CIA apparently had very, very clear evidence as to the role and the involvement of BCCI in all of the shenanigans outlined this morning, but for whatever reason was unwilling, unable to share that information with other agencies of the Federal Government.

These are some of the questions that I think that this committee and other committees of the Congress should focus on, and I think that this investigation should ultimately be expanded to include Mr. Webster at the CIA, Mr. Brady at the Treasury, and ultimately the President, because the President of the United States in the final analysis the last time I checked is the chief law enforcement officer in this country and responsible for the conduct of the agencies of the Federal Government.

Where was the White House? Where was the chief executive officer of this country from supervising the agencies that are charged with the responsibility of defending and enforcing the laws of this

country?

So, Mr. Chairman, I commend you again and I view this hearing today as only the introductory discussion of this very, very important issue.

Thank you.

The CHAIRMAN. Thank you, sir.

Mr. Ackerman.

Mr. Ackerman. I would like to reserve this space in the record to put my opening statement in and suggest we get on with the hearing.

The Chairman. Without objection, your prepared remarks will

be in the record at this point.

[The prepared statement of Mr. Ackerman can be found in the appendix.]

The Chairman. Mr. Neal, do you have any opening statement? Mr. Neal of North Carolina. I would like to hear the witnesses.

The CHAIRMAN. Ms. Waters.

Ms. Waters. Mr. Chairman, I have a formal statement to submit for the record. Let me just say that as a new member of this committee I am thoroughly disgusted with the high and mighty, with the privileged, with those who have been in charge of major resources of this country who have literally dishonored the people of this country, the citizens who have deposited in banks, people who have trusted them.

I don't hold anybody in a such high regard and high esteem that I am not prepared to send them to jail for misconduct and for un-

dermining the banking system of this country.

I come from a district where people are poor, where people are struggling, where people go to jail when they steal a loaf of bread. They are shot by cops if they dare to make a wrong move. And so I am struggling with how we develop a domestic policy, how we deal with helping poor people, how we bring about some justice and equality in a society where there appears to be very little these days.

The high and the mighty and the rich are getting away with unusual criminal activity and I am anxious to be involved in these

hearings.

I do not intend to be nice to anybody. I do not intend to suffer any longer the so-called highly esteemed, the learned, the intelligentsia coming before this committee making excuses about its behavior, so let's get on with the hearing, Mr. Chairman. I am prepared to do the people's business.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Maxine Waters can be found in

the appendix.]

The CHAIRMAN. As the Chair indicated, the committee is proceeding under rule X in legislative investigatory capacity so the Chair at this time will ask the witnesses to stand and raise their right hands.

[Witnesses sworn.]

The Chairman. The Chair will also announce that it must insist on compliance with the rules and ask the gentlemen congregated directly in front of the witness table to please step aside. I know space is congested in this room—it is something we can't help—but we have to observe the rules and have to give the witnesses every recognition of their rights under our rules.

Our rules do provide explicit rights to our witnesses, and I think that the decorum and dignity of these provisions must be maintained at all times and that includes the respectful observance of the rules that affect not only the witnesses but each one of us Members of this committee. So I thank the gentlemen photographers for observing the rule.

At this point the Chair will recognize Mr. Clifford.

STATEMENT OF CLARK M. CLIFFORD, ESQ., PARTNER, CLIFFORD & WARNKE, AND FORMER CHAIRMAN OF THE BOARD, FIRST AMERICAN BANKSHARES

Mr. CLIFFORD. Thank you, Mr. Chairman. We appreciate the invitation that you and Mr. Wylie extended to us to appear before your committee. We come voluntarily and we come in the hope that we may be able to be of some assistance to the committee as you meet your legislative responsibility.

We bring another side to this problem, and we present it because we believe that it will be helpful to you to know the other side of

this particular situation.

From the time that the Federal Reserve first announced in January that they were conducting an investigation, we have cooperated at every stage with our government. We appeared before the Federal Reserve for lengthy examinations there before their counsel. That took days.

We have appeared before a Federal grand jury here in Washing-

ton. That took days on the part of each of us.

We appeared in New York before the staff of Mr. Morgenthau. That also took days. We have answered every question that has been asked.

Now, the reason we have done that is that our consciences are clear. And we are here today because we voluntarily chose—under the law we might have avoided it—we chose not to avoid it. We chose to come before you so that we can tell you what has happened in this phase of the matter that could bring us into the case, and it has been mentioned before that we are experienced professional men—what could bring us into the case, persuade us of the legitimacy of the investors' actions and have us continue through the process.

For 9 years, we have operated First American Bank. I have been chairman of the board. I want to explain how that occurred so that you all will understand it.

As I listened to each of you gentlemen, I understand your attitude. I have also read all of the pieces about BCCI. I understand all the charges that are made. And yet, as far as we are concerned, we are not involved in that. We have not been guilty of not only any

legal infraction; we have not been guilty of any misconduct.

I am not conscious of being guilty of any impropriety upon our part. This comes as a surprise to many of you as I listened to you, but it is our hope that as we speak to you that you will begin to understand not only our participation but how this operation could conduct itself in such a manner that it could escape the surveillance of the law.

Now, I recognize as I listen to you, gentlemen, we have a formidable task in persuading many of you of our innocence in this. But I approach it willingly. I approach it with a desire to have this hearing. Each of you at some time in your career has been attacked, and you have recognized the difficulty with how you respond to the attack. You don't own a newspaper through which you can speak and neither do we. You don't have persons who will rise to your defense, and neither do we. The whole atmosphere of the public, all of the proceedings that have taken place, all would be against us. And yet we appear here so that you can hear our side. And I suggest to you that it is my deep conviction that when you have heard us, you will at least in some way have a different attitude.

Let me briefly give you my background, very briefly, which has some impact upon what we are to discuss. I come from St. Louis, MO. I came to the bar there on June 1, 1928. I went with one of the leading law firms and practiced for 15 years and then things were going badly in the Second World War and I went down and volunteered for the Navy and sent my wife and three daughters

back to her parents in Boston.

I was active in the Navy during the war. I ended up at the White House when Harry Truman became President, first in the Naval Aide's Office. There, I got to know him intimately for a year. And at that particular time in early 1946, he asked that I leave the Navy and become counsel to the President. So I served for 4 years as counsel to the President, those enormously exciting and vital years of the Truman doctrine, the Marshal plan, NATO, Point IV—it was an enormously great privilege to me to be involved in that.

I learned a great deal about our government. I learned a great deal about honesty and decency under Harry Truman, for whom I

have the deepest regard and the deepest affection.

Later on after those years in the Navy and the White House where I served for 5 years, the time had come for me to go back into the practice and I formed a firm here in Washington at the beginning of 1950. I have had that law firm here now for 41 years. It has proved to be a successful operation. It has been a very interesting pursuit of the law, which I love, and in addition to that it has placed me in a position where I could return to the Kennedy administration, where I served as Chairman of the President's For-

eign Intelligence Board, an important function it was at that time. I served in that capacity for 7 years.

I then came to serve in the Johnson administration as an advisor and ultimately as Secretary of Defense during a very critical time in the Vietnam war.

Under President Carter, he used me as a traveling Ambassador to Greece and Turkey and Cypress and India and other places. So I have that government background.

I have prided myself upon the service that I was able to render. I felt that it was an enormous privilege that was extended to me.

I have taken a number of oaths like I did today. I have taken an oath as a lawyer, as a Naval officer, as counsel to the President, as Chairman of the Intelligence Board, and as Secretary of Defense, but what I tell you today will be the total and the complete truth. I shall not equivocate in any way because I observe the solemnness of this oath and the other oaths that I have given.

I want to tell you the story. It is a personal story, rather particularly personal story, but I must tell it that way in order that you understand it.

Now, I will begin to tell it. I will tell it in narrative form because I believe that it will that way be more interesting to you and easier for you to assimilate.

At some point when I have taken the majority of our time, which the chairman has generously allowed us, my partner, Mr. Altman, will take the few minutes at the end of it. And then—I do not look with concern upon your questions. I welcome your questions.

Nine long months now we have been put through this processday after day, you wonder in the morning what else is going to be said about our participation. So we have waited for this day a long time. We welcome the questions so that the thoughts that have bothered you, we will be given a chance to answer.

I know that some of you apparently have reached conclusions. I would hope that even though we may not change your conclusions, it would be my hope that we might modify your attitude. But the ultimate aim and purpose of our being here is to assist you in your task.

You wonder how BCCI could come into this country, and we read that they obtained possession of a substantial amount of stock of First American. And you wonder, what is the relationship between BCCI and First American; how can that happen?

It is my hope that after we have concluded the day and done whatever we can to be of assistance to the committee that it will

help you in the legislative burden that you carry.

I will now turn to the story and tell it, and I hope that it will hold your interest, because it is of such vital importance to me. Let me say it is of such vital importance to me, because many of you are lawyers. I have been a practicing lawyer for 63 years and in all that time there has never been a cloud placed against my name until now. And this gives me some opportunity to attempt to remove that cloud in addition to meeting the much more important responsibility of helping you men with your legislative task.

Let me turn now to the very beginning, and I will tell you the

story as as it unfolded.

In December 1977, a former client of ours, Bertram Lance, who we had represented at the request of President Carter when he had a problem with the banking committee in the Senate, he called and said that he had a friend from abroad that he would like to bring in to meet me just on a social basis. He brought in a man named Agha Hasan Abedi. I had never heard of him before. He was a man of quiet demeanor. He spoke intelligently. His English was perfect. He was Pakistani. He was a banker. He was a man of considerable charm, nothing about him was entrepreneurial and promoting in his conduct.

We had a visit together. It was a very pleasant visit and came to

nothing.

Then in the weeks that followed, I learned that Mr. Abedi and Mr. Lance and others were interested in acquiring an interest in a rather obscure bank holding company in Washington named Financial General Bankshares.

After a while, four individuals had acquired each an interest of approximately 4½ percent. They were just under the 5 percent limitation. And when the information came to the attention of Financial General that these four individuals—they were Arabs—had acquired a total of 18 percent, that gave them deep concern that possibly this might be the beginning of a takeover move.

They go to the SEC with the information. First then, Financial General called in very experienced counsel from New York and filed a suit against these four individuals. And they included BCCI,

which had acquired the stock in behalf of the individuals.

And they included Mr. Abedi as one of the defendants, also, in the case. Shortly thereafter, the SEC started an investigation to determine whether these four individuals might constitute a group.

It began to appear to the SEC that possibly the investors did constitute a group. This was a field in which we were not experienced as lawyers, the takeover field. Usually the best experts are in New York, so we brought a firm in to assist us, the firm of Wachtell, Lipton, which has been very active in all of the takeover matters.

So when the suit was filed, we came into it as counsel, and we

brought them into it with us.

Now, I might say that as the matter developed at that particular time, the question would naturally occur to you men, now here is BCCI, we have accepted them as a client. Now, how would we at that particular time, in the light of all that we know now, why would we have accepted BCCI, now known as the bank of crimes and criminals?

Well, I ask, if you will, to go back 13 years with me and see if you could open your mind to what might have existed 13 years ago. So in come now Mr. Abedi and some of his associates, and they seek our assistance, and they employ us because the litigation had been filed.

What do we find about this BCCI at that time? In the first place, what impressed us was that the Bank of America owned 30 percent of the stock of BCCI and had from the beginning.

The Bank of America at the time was not only the largest bank in the United States but I think, perhaps, the most highly regarded.

And the fact that the Bank of America had looked at BCCI and had decided to invest, and again a 30-percent interest in our minds

placed an imprimatur of approval upon that operation.

A second interesting development that occurred that was there was at that particular time there appeared an article in *The Economist* magazine in Great Britain, a highly accepted magazine, and let me read a sentence or two at that time.

It says, it was devoted to the Bank of Credit and Commerce—"The Bank of Credit and Commerce International, (BCCI) is the fastest growing bank to hit London since the early 1970's. . . . The man with all the answers is Agha Hasan Abedi, founder and president of the bank. He is highly regarded in the banking world.

"The Bank of England is prepared to vouch for him. He made his reputation building up the second largest bank in his home country, Pakistan. When it was nationalized, he pulled out to start

afresh, taking a lot of his top management with him.'

That was impressive to us. It gave an impression of it. We are all familiar with *The Economist* and the standing it has in the United

 ${f Kingdom}.$

Also, we are advised by him and learned that he had arrangements already established with three very important banks in the United States. One was the Security Pacific Bank; one was the Bank of America; and one was American Express. It had been doing business for years with them; and in each of those banks, they had extended large credit facilities to BCCI.

Then, interesting enough, along about that time, not much time had gone by, BCCI chose to offer an issue of notes, we would call them debentures. And they offered a \$50 million issue, and the following American companies became underwriters for this issue of

BCCI which was being offered to the American people.

And these following companies at that particular time offered to their customers these securities and vouched for the safety and the

respectability of the company that was offering them.

And the American underwriters who participated were Bank of America, Credit Suisse, First Boston Limited, Kidder Peabody, Lehman Brothers, First Chicago Ltd., Prudential-Bache, and Merrill Lynch.

So again, that gave an impression of respectability and character

to BCCI at that particular time.

As we followed it and as we worked with them, there came along another development. This has an ironical twist to it which you will understand.

In December 1985, they had been operating here in this country in a number of places—they had representative and agency offices, they had one in San Francisco, one in Los Angeles, one in New York. And those had been granted.

During that period of time, they were expanding in different parts of the world, and I think they got up to the point where they

were operating in 70 different countries.

They were being accepted. They were being invited. And that is what this item here is, the Comptroller of the State of Florida, who is head of the Department of Banking and Finance, writes a personal letter to Mr. Abedi, the one that we have read so much about in the paper.

And he says, "Dear Mr. Abedi, I am happy to have this opportunity to share with you my firm conviction that Florida is the most commercially attractive and viable State for you to locate and expand your bank's U.S. activities . . . "Between January and June 1985, more applications for national

bank charters were approved and more charters issued in Florida

than in California and New York combined."

The rest of the letter is a build-up of why it is so advantageous to do banking in Florida, the taxes are low and the State is growing and so forth.

But I am attempting to give you some feel of what is the situation that existed at that time. This is what we learned.

The only one criticism in all our different contacts that we heard about BCCI was some banks looked with some concern upon the fact that they did not have one strong central regulator.

That would be of great interest, of course, to this committee because you are going to want to face up to that as you look at legis-

lation.

But most of the banks in this country did business with them, but there were some who were concerned about that one particular item.

When these men came in and we got to know them, I came not only to believe what they were saying but as I expected, they carried through on commitments to us. When they told us something and we looked into it, it proved to be true.

And so, they made a very favorable impression upon us. And what they told us was that they were engaged in acquiring stock in this company, Financial General Bankshares, because they be-

lieved that it had a great future.

Now, one important individual through the story is a Saudi Arabian named Sheikh Kamal Adham. He was a very important businessman, related by marriage to the King of Saudi Arabia. He is still today one of the leading businessmen in Saudi Arabia, and he was part of the group that we became acquainted with during this particular time.

And they said that we wish to acquire this stock. It first came to the attention of these men when a letter was written by a local official in the Saudi Arabian Embassy to Kamal Adham saying he had been reading in the paper about this bank holding company named Financial General that was splitting into cliques and groups

and warring tribal constituents among shareholders.

And he had looked into it and thought Kamal Adham should look into it. Apparently the Saudi Arabian Embassy here served to a certain extent as financial advisor to prominent men back in Saudi Arabia.

Kamal Adham then turns to Abedi, the head of the BCCI bank. Abedi was the investment advisor to a substantial number of very prominent and wealthy Arabs. That was one of his main functions.

He had gotten his original financing to start his bank from Arabs, and they had been exceedingly generous in that regard. So that we were then informed by Kamal Adham and by Mr. Abedi and occasionally as we met others of the investors, that they had become interested in this stock.

After Abedi had investigated it, he concluded it would be an excellent buy, that they had a splendid charter, and he was right in that because they were the only bank holding company east of the Mississippi that was granted the right to operate in more than one State.

Under the old Bank Holding Company Act of 1956, you couldn't operate in more than one State if you were a bank holding compa-

ny unless you had been operating before the act of 1956.

And Financial General Bankshares had, so they were grandfathered. And they had a bank in New York, and they had a bank in Washington; they had a bank in Virginia and Maryland and Tennessee, and that appealed to these foreign investors.

So we understood what the situation was and complied with

their wish that we represent them.

Now, as the matter developed the question came about who were these different investors? We had already checked carefully into BCCI and found that they constituted a respectable, credible operation. Now we wanted to find out more about the investors, and we did find out quite a lot about them.

When the time came when we ultimately had closed a deal with Financial General and had ended the litigation and had agreed to purchase all the stock for cash, we then went before the Federal

Reserve for a hearing.

We had been before all of the States, also. Discussing the matter with the Federal Reserve, we learned a good deal about the investors. We got information of our own and passed it on to the Federal Reserve.

Let me refer to a kind of compendium of the information that we obtained about them, because not only was it important to us that our bank client, BCCI, be a respectable client; but it was important

to us that these investors be respectable people.

The whole arrangement was a matter of importance to us. I might say that we have followed the practice during the 41 years that we have had our firm check with care clients when they came in to see us to see if we couldn't learn as much about them as we could before we accepted them.

In many instances, we have chosen not to represent clients. I think that has helped us retain the standing and the reputation

that we have had.

But as we made inquiry to find out about these investors, we found out—let me give you these quick points in a row. They were persons of reputation, wealth, and stature. They were willing to come over from the Persian Gulf and testify before the Federal Reserve, and four of them did and gave their testimony.

Also, because now there has been so much evidence about whether they were really shareholders or whether they were just nominees—we have all read that over and over again—we did not know they were nominees. We accepted it that they were legiti-

mate shareholders.

And there were a number of reasons why. For 9 years that we have run First American, every year we sent out proxies to the 14 shareholders, and every year the signed proxies would come back.

Also, almost every other year, we went to our shareholders with a rights offering. Our bank was growing. We had to get out new stock and bring in more capital under the rules that prevail in this country.

From time to time, we were notified of stock transfers that took place between these shareholders. These were signs of legitimacy, and we accepted them for that.

Also, what we did, out of an abundance of caution, if I was going to take on the task that I later took on, I wanted to know that for sure the investors were going to be behind me for a period of time.

So the man who was working most closely with me at the time was Senator Symington who was an old friend of mine and who was retired from the U.S. Senate.

We got up a document, and we referred to it as the Symington Voting Trust Agreement. It was agreed by the shareholders that at least 60 percent of them would sign this trust agreement, and it would exist for 5 years. That would give us 5 years in which we could demonstrate our ability to do the job. So we had that to fortify us.

All during the first 5 years, 60 percent of the investors were on the Symington Voting Trust. Other little incidents that happened—the bin Mahfouz family in Saudi Arabia is the best known banking family. One of their principal officials is Khalid, K-h-a-lid. He wrote us and said he was coming to the United States and would like to see the banks of which he was a partial owner.

We met him, had lunch with him and took him around to the banks. He was particularly interested in seeing our new data processing center that we had just put into existence. It was really the best, I think, in the country. It was the cutting edge of the newest scientific advance in data processing.

He was fascinated with it and asked if he could send over a team

to go through it.

One other psychological factor that had some impact on us was that in the presence of these important Arab investors, Mr. Abedi was deferential, almost to the point of being obsequious. So it just would not enter a person's mind that these individuals were being used as dupes or nominees. His whole attitude was that of a man

who was in contact with his superiors.

The best analysis of the type of investigation that was made by our government—and this also is of great interest to you—is a letter that the chairman of the New York banking council or commission wrote to Honorable Benjamin Rosenthal, who at the time was chairman of the Commerce, Consumer and Monetary Affairs Subcommittee of this body. And Chairman Rosenthal had written a letter saying, I want to know why it is that with different rumors around, why it is that you fellows in New York who are so sophisticated, why you chose to agree that these people could come in and acquire a New York bank.

I want to read two or three paragraphs from that letter. They

are very revealing.

"Dear Congressman Rosenthal, at the public hearing held by your committee on September 30, you requested that the New York State Banking Department supply you with information concerning the investigation of the investors who applied for permission to acquire control of First American Bankshares, Inc. (First American), formerly known as Financial General Bankshares, Inc."

I might say that after we obtained control, Financial General Bankshares meant nothing, either in this country or abroad. We changed the name to First American Bankshares, a much more appealing name and particularly a more appealing name as we used

Just two or three more paragraphs: "The material submitted under CB 117 was further supplemented by a long list of additional information which we subsequently requested and obtained from applicants. This included interim financial statements, additional bank and non-bank references, further details on their business connections, elaboration of significant items on their financial statements and background data on the home countries of the applicants.

Then they did something rather interesting, the New York Commission did. "We also worked closely with the staff of the Federal Reserve Board, who were investigating the same investors, and exchanged information with them continually. They, of course, had at their disposal the vast investigative resources of the Federal Government. Through them we established contacts" with the various

departments of government.
"Finally," he says, "we utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank. Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information we have received, and were able to supply us with additional information as well.'

Then he reaches this conclusion: "From none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary; all the information we received indicated that the investors were prestigious and

reputable people."

This we found impressive. We had the feeling that we were representing a bank that was well-recommended. The Bank of England had given its approval, and we looked into the investors and

they have been checked.

I thought at that time when he said we have looked into these 14 people and we have received no derogatory information about any of them—I tried to think about 14 people that I might know in this country that we could investigate about whom there would be no derogatory information, so it was quite impressive.

Finally, the litigation was over. And when it was over Mr. Abedi and Kamal Adham from time to time as we would see them began to suggest to me that they would like me to have a continuing rela-

tionship with the bank.

We had been through 3 years of litigation and it was pretty bit-terly fought. We had all been through it together for some time; sometimes you win battles and lose battles. Ultimately, we won the war. We got to know them well and I might say they came to have confidence and trust in us. So that as they were faced with the future of how they were going to run the property that they now owned, they began to speak to me more and more.

A custom had started during the litigation whereby at 3 or 4 month intervals we would go to London and keep these men informed of the progress. Abedi and Kamal Adham served two important functions.

They were the investment advisors to these investors, although they had a continuing interest in maintaining close contact with the investment so that they could keep their customers fully informed as to what was going on.

Kamal Adham, he would refer to himself as the informal chairman of the investors. He was known to all of them and was highly

respected throughout the Middle East.

Finally, the day came—I sensed it was coming some time—in London, when Abedi and Kamal Adham said, Mr. Clifford, we want you to come in and take over the operation of First American Bankshares and the eight banks that they own; we have come to know you; we know that you can go out and get the best banking talent, but we want somebody to head it up; we would like you to be chairman of the board.

Now, this is very personal. I was 75 years old at the time. I had been practicing law for over 50 years. The routine practice had been interesting to me, but there was nothing particularly exciting

going on at the time, and this offer was a challenge to me.

I was well. I was strong and I was vigorous. I had friends who had retired and the story I got from them was a pretty sad one. I had a former head of General Electric tell me one time—I saw him in Florida. I said how do you like being retired, and he shook his head sadly and said, you know, there is one thing—you won't realize it—but he says being retired ruins your weekends. It was a curious remark. Every day is kind of a weekend and when you have worked all your life to suddenly retire, there isn't anything.

I have worked all my life. That is what my life has been, just work. It has kept me alive and, I hope, able and vigorous. I didn't want to retire. I didn't want to just sit on the porch and rock and

wait to die.

I said, here is a challenge; this is a real test. I wonder if I could do this. I wonder if I could take this obscure company and built it into something important and big and impressive. So I asked a few questions and I said now, these investors, are they going to call me on the phone and say, Mr. Clifford, the ABC Co., is a friend of mine and I would like you to make a loan. No, they said, they are passive investors. They have only invested because they think it is a good investment.

We settled a number of questions. One is, I said I would not like to pay any dividends; I would like to plow the dividends back into the company. They said, I am sure that would be satisfactory to the

investors.

So after clearing up a number of those matters, I accepted the position of chairman of the board to see if I could take the task on and succeed at it.

I then organized a board of directors, and I submit it is about as impressive a board as I had ever encountered in my corporate law career.

First, I brought in Senator Symington. He became vice chairman. Other board members included former General Jim Gavin, the man had a wonderful war record. He became our Ambassador to France, and afterwards headed Arthur D. Little, Inc., a business

advisory firm. I also brought in former General Quesada, who with David Rockefeller, had planned the L'Enfant Plaza development and made it such a success.

We brought in men of that stripe, older men, men with wide business experience. We brought in four men from the old board so that we could have continuity. Then we started in and went to work on it.

In reaching the agreement that I had with Mr. Abedi and Kamal Adham, who were representing the investors, I explained the background. I told them how old I was. I said why I am taking it on; I am taking it on as a challenge; I am not looking for a job; I don't want a job; and I will take it on this basis; I will take it on if you and I have the understanding that I will have full responsibility, and at the same time I will have full authority.

Now, I had learned that lesson in government. If you want to find a way to end up in total disaster, take a job in which you have the responsibility but you do not have the commensurate authority. So I said if I have the total authority, I will then accept total re-

sponsibility.

They said that is perfectly all right. It is your choice; take it on that basis.

I explained that to the board, that they and I would do this job together, and on that basis we started out.

Let me just turn now to what we did with this company.

When we took it over the assets of the old Financial General were \$2.2 billion. By 1989, after we had been in charge of the company, the assets reached \$11½ billions. The deposits had been less than \$2 billion and we developed those deposits to the point where they became just about \$10 billion, showing the confidence of people under the new management of the bank.

In the first 4 years, net income from the operation doubled. In the second 4 years, it doubled again, so that the early profit was a little under \$20 million that year, and in 1988, the profit of the operation was \$81 million, so that we made those changes in this

company.

The number of employees grew from 3,500 to 6,200. A new spirit took place in the bank. Before there wasn't any spirit. Now, they

belonged to the First American family.

Now, this was not done sitting in an ivy tower back here in Washington. I got out and I went to each bank, and I worked with each bank and I got to know the directors and the officers and the top employees. And we went in to them; we had an audit made of each bank. We knew exactly how each bank operated.

Then, we went in and we analyzed the capital. A number of them were undercapitalized and we began to strengthen the bank. We would get additional funds from our people and we began to

build up our bank.

Our banks began serving the communities infinitely better and we made the success that we did. I must say, however, so you get the full picture, every year we increased the assets, the deposits, the income, until 1990. Then I regret to say that we ran into the collapse in real estate values which all other banks in this area did, and we had our first loss that year, deeply regrettable and deeply painful to us after each year of progress.

But the bank is soundly constructed. It is soundly structured. The people in it are trained. Over the years we have changed the chief executive officer of every one of our banks and substantially upgraded the management of each one of our banks. So the bank will ride through this well.

It is so soundly built, I believe, that it will ride through and per-

haps a good deal better than most of the others.

Now, let me turn to another subject. I am watching my time.

When I took on this task—this is, again, a personal part of the story—when I took on this task and I visited with the board, the board said, all right, now we want to set your compensation. I said I have been thinking about that. I want only very modest compensation. I am not in this to handle a job and be paid a salary. I am in it really to see if I can make a success of it, so I suggest to you

that I be paid \$50,000 a year.

Now, I believe that with banks of that size you would ordinarily find that the compensation of the chairman of the board might be from \$250,000 to \$300,000, something of that kind. For instance, the banker that we brought in as president and CEO, we paid \$225,000. So I said, let's just keep it that way. And in my mind was the thought that if we could develop the bank the way I thought we could with the potential that it had, that some time I would like to acquire stock in the bank and I would like to be rewarded for my efforts, for my ability to increase the value of the stock. And that seemed fair to me and it seemed reasonable to me and it does to this day.

So I went on as this bank grew from a bank of assets of \$3 billion to \$4 billion and \$5 billion and up to \$11 billion. I continued to receive \$50,000 a year from the bank with the thought in mind that ultimately I would gain my reward from acquiring stock in the

bank.

I let 4 years go by before I did anything about it because I wanted to see whether or not we could make a success of it. And in 4 years, I might use a slang expression, we had gotten over the hump. I could see that we had made it; we had gone from \$2 billion in assets to \$7 billion; we had gone in deposits from under \$2 billion to \$6½ billion in deposits. We had doubled the net profits from the operation. It was then that I mentioned to Abedi and to Adham, who knew of my plan all along, I would like to acquire some stock in my own company.

What I wanted to do was buy stock in my own company. It is so customary in this country for top officials to own stock in their own company. They are given stock options. They want to attract a top officer. He won't think of coming unless he was going to participate in the stock. This was my idea. I get impressions from reading newspaper stories that they thought I was acquiring stock in some other company. It was my own company, the one that I

had put so much of myself in to, to build.

I said I want to acquire stock. I thought they might say, we will get the shareholders to contribute stock to you, but nobody suggested that or we might have some kind of a stock dividend plan.

Nobody suggested that either.

What they came up with was an idea that was appealing. They said when the time comes for us to offer new stock rights to our

shareholders, if there are any rights left over that are not subscribed to, you can come in, Mr. Clifford and Mr. Altman, and acquire stock at the same price as the shareholders.

I said alright, that sounds right. The bylaws of CCAH, that is the top holding company of First American, provided for that very arrangement. So in 1986, we had a very large stock offering of \$150 million. It was not fully subscribed, so that gave me the chance to come in and acquire \$9 million worth of the stock and Mr. Altman, half of that.

I won't keep referring to him because he got half of what I did at the time. We bought it at the same price as the other shareholders. We bought it under the bylaws of the company. We got the consent of the other directors of CCAH; just to be sure, we got it in writing so it would be there in the record. So we acquired that first holding of stock.

Now, in attempting to work out the details of it, again an area in which we were not too familiar, we turned first to a bank in France that we knew, the Banque Arabe et Internationale d'Investissement, called BAII.

The reason we knew them was because they had made a loan of \$50 million to the investor, that is CCAH, at the very beginning of the purchase of the stock. We have since paid that loan down now to where it is only \$10 or \$11 million.

Mr. Altman had gotten to know Mr. Bradshaw of that bank in working out all the details. We brought in our New York counsel, as we did from time to time, the Wachtell, Lipton firm and said, see if you can work out an arrangement with BAII in Paris. We would like to borrow the money to make these stock purchases.

Our New York counsel advised us that under the circumstances, particularly at my age, because this was 1986 and I was 80 then, and they said, Mr. Clifford, let's see if we can't make a loan with a nonrecourse note. It doesn't make any sense for you at your age to enter into a situation where you acquire a rather substantial debt and then it is left to your estate, your expectancy is very problematical, and I understood that.

So they tried to work that all out with BAII, and BAII had some ideas that weren't appealing at all. They wanted a big payment on their loan at the very beginning, which didn't appeal to us.

When our New York firm was unable to work out the deal with BAII, I then spoke to Mr. Abedi and said we would like to borrow the money to pay for the stock, you know, that Mr. Altman and I are acquiring.

And we are acquiring it at book, and it seems to me that the value is there, and I think you would be totally protected if you were to lend us the money based upon the value of the stock. He says "that would not bother him at all, I have no qualms about it. I know the stock, I know the number of inquiries that I get from others, from other shareholders."

Is there any stock for sale? He says "I have no trouble with that. I would be glad to make that kind of loan." So we borrowed the money at that time to pay for the stock. I borrowed mine, Altman borrowed his, and we gave the notes which were prepared by the New York firm and approved by their own counsel over in London.

Then 1 year later we made another offering, a small offering, and we wished to participate then as shareholders because we had certain rights since we had become shareholders. On that second loan, I borrowed \$2 million and Altman borrowed \$1 million, again from BCC under the same circumstances.

All during this time, First American was getting stronger and stronger and more valuable. So in 1988, the market in bank stocks was strong, strong in this country, strong worldwide, and we said at that time we think that with the very substantial interest amounts we are carrying, we should sell some stock because before we made the second loan, we had to pay off out of our own funds close to \$1 million in interest to get the second loan.

And by that time, Abedi had become ill, we talked to the number two man, Mr. Naqvi. He said—in fact, I wrote him a letter in February 1988 and said we would like to sell something in the neigh-

borhood of half of our stock.

In conversations that I had had with Naqvi after that, and he said what do you expect to get for it? I said, we would like to get for our stock what is the going rate here now in this country because there is a lot of interest in bank stocks, and they are selling for two and a quarter times book value, even some banks are selling for three times book value. I said, if we could get two and a half times book value, we would be pleased with it.

About a month went by, and he advised us that he had found a purchaser, and the purchaser would pay the price that they had agreed upon, 2.6 times book value. I was perfectly satisfied. We re-

ceived the price of \$6,800 per share for the stock.

Now, sometime in that same period of time, there had been a very substantial purchase of stock by the bin Mahfouz family in Saudi Arabia, and they had paid \$6,100 per share for the stock, so what we were getting for ours was in that general neighborhood. The book value had increased since they had bought theirs, so it

The book value had increased since they had bought theirs, so it was in the general neighborhood of that particular transaction. So the deal was closed, the purchase price was funded to us, we paid off all the loans that we had obtained from BCCI, we paid off all their interest.

BCCI charged me a commission of \$1½ million for making the sale. They charged Mr. Altman \$750,000 for making the sale. That was the conclusion of that. We still own the balance of the stock, I still own about 2,000 shares and Altman still owns around 1,000 shares, something of that kind.

But we continued to have confidence in First American, so in 1989, we subscribed again as shareholders and in 1990 we subscribed again as shareholders because we felt that the value is

there.

Now, in an interesting way, and again there is a certain irony here, all this took place after all these years of the work that we put into First American. We did not go into it on a basis of it being a moneymaking opportunity. That was not it.

I have explained to you why I really went into it as a test of myself. We waited for years before getting into a stock situation. Now, the value that we had brought to the investors was exceed-

ingly substantial.

They put in about \$200 million into the company at the beginning, then in various stock offerings they put in another \$300 million, so that they put in something around \$500 million.

It may have exceeded that sum. We felt that at the time, that we were in the process of making the sale of our stock, that the value of First American had grown from the half a billion that they had

put into it to over \$1 billion in value.

Now, that is easy to say, but there is an interesting test of that because in the spring of 1990, even after the bloom was off the rose of bank stocks, I get a letter from Hugh McColl of North Carolina National Bank, called NCNB Bank, and he said, Mr. Clifford, we have made an analysis of First American.

We have been studying it for some time, and we are interested in acquiring First American, and I would be glad to come and visit with you about it. He said in order to demonstrate to you that we are serious about the matter, I will tell you at this time that we

will pay you \$1 billion for your bank.

Now, I immediately translated that \$1 billion, in my own mind, into \$2, \$3, or \$4 billion, because nobody ever makes his best offer first, but he said at that time, to show you how serious I am, we will offer you \$1 billion for your bank.

My guess is it was worth \$1½ billion. So that would have been substantially three times the investment that our people had in it. That is why we have been perfectly comfortable about the profits that we made in the transaction. We had increased the value to

these owners at least double and possibly more.

Putting it in dollars, we had increased the value by a minimum of \$500 million, and more likely, a figure that would be between \$500 million and \$1 billion that we had increased it in value so that the profit that we made on it compared to the service that we had rendered to our people, we felt, was not only fair, but we felt it was really quite modest.

I am getting near the end. I would like to make this point. When we came into the bank, we talked to the board, and then I talked to the employees, and I got to know them all. I said, this bank is going to be operated at the highest level of ethical standards.

We are going to watch carefully, we are going to obey every ruling, we are going to obey every order, we will comply with every law and every regulation. And that was emphasized to them, and we have operated the bank honestly and successfully for 9 years. Now, all during that time, as we had read stuff or wondered

Now, all during that time, as we had read stuff or wondered about it, all during that period of time, that 9 years, at no time did BCCI exert any control whatsoever over First American.

At no time did they even make an effort to do it because Abedi and Kamal Adham, who still continued in charge of the proceeding, were the ones who made the agreement with me that I was to have total responsibility and total authority, so at no time has any decision been made for First American by BCCI.

You have my word for it. I give you my word under oath, at no time did we turn to them for a decision. We were always willing to hear anybody. If Abedi had a suggestion, if Kamal Adham had a suggestion, if any shareholder had a suggestion, we were always glad to hear from them.

We would continuously consult with banking experts, Golembe and Associates, others, perhaps. We were always glad to get any kind of a thought that anybody had, but in the end, the Board of First American and I made the decision. Because there has been so much conversation about the possibility of there being some control by BCCI of First American, let me turn now to this, if you please.

by BCCI of First American, let me turn now to this, if you please. Here is the testimony of Virgil Mattingly. It is very brief. I am not going to belabor it, but it gets right to the point, and so the record may show it, it appeared before—he appeared before the subcommittee of the Banking Committee in the Senate on May 23, 1991, and he was questioned closely and rather caustically about

the impact that BCCI had on First American.

His answer: "The acquisition was consummated April 19, 1982. Mr. Clifford assumed control of all of the corporations. In the years following the acquisition the Board looked at this. This Board monitored the commitments to make sure they were being complied with.

"There was no evidence to suggest that the statements made to the Board or to the other regulators were not being honored. No dividends were taken out of these banks. And in fact, hundreds of millions of dollars were injected into the banks by the shareholders to support their operation.

"Both Federal and State examinations indicated no irregularities in any dealings between BCCI and First American, which were re-

ported to be limited."

Then he said, he made a reference to Mr. Bailey. Mr. Bailey was the Commissioner of Banking in Virginia and had been opposed to us from the beginning, not because it was BCCI, but because he did

not believe in foreign ownerships of banks.

And Mr. Mattingly went on to say, "I might add that Commissioner Bailey has recently reported that his State"—our biggest bank is in Virginia, that is Bailey—his State "has no criticism whatsoever of the management of that bank, and they have no evidence of attempts by Middle Eastern investors to influence in any way the policy of First American.

Mr. William Taylor, with whom you men are acquainted, he is the director of the Division of Banking Supervision and Regulations of the Federal Reserve. Here is just a short paragraph of Mr.

Taylor when he was testifying before the Senate.

"I guess I would add that our first reaction, along with all of our colleagues at the State and other Federal regulators, was to look carefully, as Mr. Bailey indicated, to look carefully at the U.S. entities here and see what kind of involvement there was and was any of it detrimental to the banks here.

"And over the years, we have not had one single report of such an instance." So over the 9 years—that was in 1991—over the 9 years that we had run the bank and they had combed through it, particularly when the word broke that BCCI had in its vault this secret stock that they had bought, I will call it First American stock.

When that happened, the Federal examiners arrived by bus at every one of our banks, our holding company, our law firm, and they combed through it. Those are in addition to all the—they thought, ah, now we have got something, now that BCCI has been

holding this stock secretly.

Again, it was after all that had been done that Mr. Taylor said we had not had one single instance in which they saw any improper deal between BCCI and First American. I am now going to conclude.

On a personal note, let me say, I went into this with that thought in mind, I am going to test myself. I think it has been good for me until this last year. Maybe it has kept me alive for 9 more

I would not, under any circumstances, jeopardize the reputation that I built up with such care during 63 years of the law practice to

go into any matter and jeopardize that reputation.

I did not need any earnings from it. I have had a successful law practice all these years. I have invested conservatively. My wife is here. I have taken care of her and the three daughters comfortably. They will never have to worry. I wasn't in this to try to make some money.

Later on, when we built it up, I saw no reason why these wealthy investors should not compensate us for what we had done in building up the value of their company, but that wasn't the reason that I went into it.

I went into it to test myself. What we learned, I believe, as we watched all this and what the committee will have to go into perhaps is in BCCI, there were really two banks. There was this outside facade bank. That is the one we dealt with.

In all these years, we didn't encounter a single suspicious circumstance. I think the reason is because they had that second inside bank, and there is the one that was engaged in what we have read about so much in the papers all during that particular

Were we deceived? Apparently we were deceived. I don't know that it is any comfort, but the Bank of England was deceived year after year. The Bank of England had the right to go in any time. They conducted their examinations at routine intervals, and the Bank of England didn't act until July 5, 1991.

They had the former Prime Minister on their payroll, Lord Callahan, for years. He was totally and completely nonplused when the story broke. They had the same auditor, Price Waterhouse, all

during those years.

Year after year after year, Price Waterhouse gave them a certificate at the end of the year, and found nothing wrong with the operations of BCCI. Recently, I saw where Price Waterhouse had given them a report covering the years 1987, 1988, 1989, and they attached that British expression, they say, "We find all accounts true and correct." That was that.
So, they were deceived. Up and down the line, it has been embar-

rassing to former President Jimmy Carter. He got to know Mr. Abedi well. They traveled together a good deal, particularly in Africa. They had a joint interest in trying to raise the level of society, particularly the health of the underprivileged there at that

My judgment is questionable. I guess I should have learned it some way. I have been in this business a long time. It has been a

very active life. You learn a good deal from government. I guess I

should have in some way sensed it.

I did not. Others perhaps should have sensed it. I don't know what happened within our government. I read about what all the different agencies knew. I know that you gentlemen will want to give a lot of attention to that.

None of that was ever imparted to us. I would give a lot if somebody had told me back in 1984 that this operation was the kind that it was. I would have given anything if I could have avoided

what I have gone through this past year.

Still, however, I face it, and I face it in a manner that would indicate that I shall continue to do everything I can to be helpful to the government. To know how this could happen. I want to know how it can be prevented in the future, and that is a main aim of mine.

In the process, also, I am going to work as hard as I can in an effort to try to preserve my good name. Thank you. You have been very attentive, and I appreciate it.

Now, I would like Mr. Altman to take a few minutes, if you will

grant him that time.

The CHAIRMAN. Thank you very much. Mr. Altman.

STATEMENT OF ROBERT A. ALTMAN, PARTNER, CLIFFORD & WARNKE AND FORMER PRESIDENT. FIRST AMERICAN BANK-SHARES

Mr. Altman. Thank you, Mr. Chairman.

The CHAIRMAN. May I say that the prepared statements that you gave us prior to this meeting will be printed in the record, if you so desire, now you may proceed as you deem best.

Mr. ALTMAN. Thank you, Chairman Gonzalez, Mr. Wylie, and members of the committee. Together with Mr. Clifford, I am pleased to appear before the House Banking Committee this morning to assist in your inquiry concerning First American and BCCI.

I started working on this nearly 14 years ago, when I was a much younger lawyer, and with this background, I hope to share with the committee my knowledge of the facts and circumstances

surrounding these events.

I am familiar with the many allegations about BCCI, and of course am familiar with the charges about BCCI's secret ownership of First American. In this regard, there has been a good deal of press coverage on these subjects which has featured us, Mr. Clifford and I, often inaccurately.

I regret that anyone may have reached conclusions about this before they have had the chance to hear from us, and I thank those who have an open mind about the matter. I personally appreciate the chance to appear before the committee and, openly and publicly, attempt to set the record straight.

I am comfortable in the knowledge that this committee and the American people can hear from us directly and you can reach your

own conclusions about the events under review.

Mr. Clifford has provided the committee with a lengthy chronology of events, and I do not intend to burden the members with the repetition of those facts. Rather, it might be helpful, I thought, if I could address two items.

First, given the extensive number of charges and allegations, I thought it would be useful to ensure that a few fundamental points do not become obscured in the volume of detail and commentary that this matter has generated, and I would like just to hit a few highlights, if I might.

Second, as some of the members in their opening remarks indicated would be useful, I would like to provide the committee with an explanation of what we did when we first began to hear serious questions about BCCI and its relationship with the investors who

we believed owned First American.

I might say, there remains considerable confusion about what has taken place at BCCI, and the facts about BCCI's ownership of First American remain unclear. We are certainly aware of the allegations that have been leveled by the Federal Reserve, and we have great confidence in the Federal Reserve's investigatory abilities, but we believe that there should be some caution exercised before allegations are equated with factual determinations.

Whatever happened at BCCI, the first point I want to make is that First American, the banking organization that we headed for 9 years, was operated honestly, and it was operated ethically. There was meticulous compliance by the company and its officers

with all U.S. laws and regulations.

We had a code of ethics that was provided to each of our employees and was practiced. The record establishes, and both internal and regulatory audits confirm, that at First American, there were no financial improprieties, there were no fraudulent lending practices, there were no account manipulations.

Mr. Annunzio had asked about money laundering. At First American, there was no money laundering. We have an excellent record in that regard, which I would be pleased to detail for the

committee.

This is not a case where, at First American, there were lavish executive perquisites. This is not a case where management lived royally with federally-insured deposits. There was no lack of regulatory supervision over the operations of First American. Most importantly for this committee, particularly given some of the other matters which you have been supervising, at First American no depositor ever lost a cent.

The second point that I want to make about First American is that First American was not controlled by BCCI in the management decisions that were made. Rather, First American has been managed and controlled by prominent American Boards of Directors and experienced American bankers.

As Mr. Clifford has explained, the full authority over First American was reposed in him by the shareholders, and together with the Boards of Directors, that authority was exercised. It was my responsibility essentially to ensure that those board policies were faithfully implemented.

I believe if this committee could take the time and talk to every First American director and every First American officer, they would confirm for you that the control of First American resided within the American boards. Control did not not reside at BCCI.

The third point that I would make concerns the financial record at First American under our stewardship. I submit to you that First American was not only honestly run, it was well-managed. During the 9 years that we headed the property, a unique retail banking franchise was created that stretches from upper New York State to Miami, Florida.

That company now employs over 6,000 Americans. It offers first-rate banking services. It is a well-capitalized, solid institution, and despite the setbacks suffered by First American in 1990 with operating losses due to the collapse in real estate, First American re-

mains unique, and it remains uniquely valuable.

Fourth point: At no time prior to this controversy did we become aware of any secret ownership of First American stock by BCCI. I think this committee can appreciate the practical impossibility for management to know what any shareholder does with his stock once it is purchased, particularly when the stock and the shareholders reside in the Middle East. And here the ability to detect any secret transfer of shares seems particularly unlikely when the auditors and the foreign regulators who had direct access to BCCI's books and records, and—more than direct access—they had a specific duty to supervise that institution, they were apparently unaware during this entire time period of any such ownership.

It is important also to recognize that there are a number of shareholders of First American who apparently are not being challenged as bona fide owners. The Federal Reserve, in its notice of charges, indicates that 40 percent of the stock is held by bona fide,

legitimate shareholders.

For our part, there was no way for us to differentiate between bona fide shareholders and those who are alleged to be nominees. We had no suspicion that there were two groups of shareholders or that they should be treated differently.

When we met with Mr. Abedi, we met pursuant to the clear disclosures and understandings that had been made during the course

of the regulatory proceedings.

Mr. Abedi, we were told, had been selected by the shareholders. He was the investment advisor for these shareholders, he was the communications link between us and the shareholders. That is not surprising. A number of wealthy people use investment advisors.

This did not appear to be anything unusual. In working with Mr. Abedi, to keep him informed and having meetings with him so that he would stay apprised of the investment, and in turn could communicate that information to the shareholders—that link apparently was a successful arrangement insofar as the bona fide shareholders were concerned—those who are not being challenged by the Federal Reserve as to their legitimate ownership.

I understand that the committee has documents that they wish to ask us about in terms of our knowledge of any secret ownership. I welcome those questions, I look forward to receiving them. I would also say to the committee that there are volumes of documents—they are at First American, they are board minutes, they are offering memoranda, they are proxy statements—voluminous records that show we have operated for 9 years with the clear belief that First American was owned by the Middle East investors.

The last basic point that I would like to address goes back to the regulatory proceedings in 1980 and 1981. Again, whatever the truth is relating to BCCI's alleged ownership of First American, I would say to this committee that every reasonable effort was made by counsel to ensure the accuracy of the representations that were

made to regulators during those proceedings.

It has not been given much attention, but the fact is that in addition to our law firm there were two other law firms that worked actively together during the course of these regulatory proceedings—experienced, sophisticated, able counsel. All of us believed that the information we were presenting to Federal regulators and to State regulators was accurate, and we were bolstered in this belief by certified financial statements from the shareholders, by sworn testimony from the shareholders, by bank references from the shareholders, and by other kinds of inquiries that were made. This belief, it seemed to me, was a justified belief as to what our clients had been telling us.

One other aspect of these regulatory proceedings in 1980 and 1981 deserves comment. I have worked with Mr. Clifford now for some 20 years and have witnessed first-hand his legendary legal abilities. Nonetheless, these oft-reported descriptions of the 1981 regulatory proceedings—that suggest that Federal Reserve approval was granted largely on the basis of some general assurances given by Mr. Clifford that this deal seems "okay"—are totally re-

futed by the factual record.

This regulatory proceeding followed very high profile litigation, and the regulators looked at this matter very carefully. There was a voluminous administrative record that was compiled, and the decision by the regulatory body was based on that administrative record.

Moreover, as the letter to Mr. Rosenthal makes clear, in addition to the information that we had gathered and presented to the Federal Reserve and the other regulators, there was also substantial independent investigation, matters in which we had no involvement. Information was gathered from the State Department, from the Commerce Department, from the FBI, from the CIA and various other agencies, and after this prolonged and exacting scrutiny, the regulators came to the same conclusion that we did—that these investors were wealthy, reputable individuals who were buying First American as a personal investment.

I would note for the committee that in the same hearings that Mr. Rosenthal was conducting, during the course of those hearings Mr. Henry Wallich, a member of the Federal Reserve, appeared

and testified before the committee.

If I could just read a couple of sentences from that testimony, I

think it might be enlightening.
Mr. Rosenthal asked, "Mr. Wallich, can you tell us just a little bit how you checked to verify the backgrounds, the character, the

integrity, the financial resources of the individuals?'

Mr. Wallich's response: "The Board worked very hard at this because, as my testimony says, this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source. We also, of course, obtained bank statements.

We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named accountants of the Big Eight. So we did what I think is humanly possible to develop detailed information on these individuals."

That is the kind of investigation that was done. This was not a casual proceeding where approvals were gained based on assur-

ances from counsel, no matter how able or prestigious.

I turn to the second issue, which some of the Members have indicated they would like to have explained. What did we do when we first received serious indications that the ownership of First American might not be what we had understood?

I would say to the committee that I submit we behaved properly. We behaved responsibly. We pursued these issues, and at no time did we get any confirmation that the facts were other than as we

had originally understood.

I might say when we first heard these allegations, we didn't believe them. We didn't think they were well founded because we knew what the facts were. We knew there was confusion. The shareholders of First American also owned stock in BCCI. You had our dealings with Mr. Abedi as the communications link and investment advisor. We thought perhaps there was confusion and

people didn't understand it,

But we didn't blind ourselves to what was happening. There has been much talk about the Tampa indictment of BCCI, the money laundering case, and arising out of that there has been reference to a taped undercover conversation that was conducted with one of the BCCI officers, a man named Mr. Awan. It has been reported rather extensively that in that taped conversation Mr. Awan advises the undercover officer that First American is owned by BCCI. It is reported and has been reported as a fact. And I can understand if that came to your attention you would wonder why we did not think something was amiss.

When we first learned of that evidence, which we did after it was produced by the government, we asked for a copy of the tape tran-

script. We secured that transcript and we studied it.

It is true that on that transcript Mr. Awan says, "We own a bank, uh based in Washington, it's called the First American Bank." What has not been given much attention to but what appears in the transcript and puts that remark in context, however, are the comments Mr. Awan made that precede those statements. Mr. Awan says the following—I am quoting. "I have, I have totally different, uh, uh, assessment of the situation. And it might be farfetched, it might sound stupid, but my assessment is, that we own a bank in Washington."

So when we read this, it was plain that Mr. Awan was speculating. We pursued it, nonetheless. We asked that counsel in the case

speak to Mr. Awan and his counsel, and they did.

Mr. Awan reported and his counsel reported that this was a rumor, a speculation. Mr. Awan had no factual basis for it. But we did not rest with that.

We then went to the top management of BCCI. I went together with some of the other defense attorneys who were representing BCCI.

I might say that we pursued the issue rather aggressively, and all of us believed that the denials we received, which were emphatic, were credible.

In addition to going to senior BCCI management, we also had discussions with Price Waterhouse as kind of independent check. Some of the attorneys went to Price Waterhouse and said, we have heard this allegation. Is there anything to support it in the file? You have access to the files.

Price Waterhouse advised counsel that there was no evidence in the record that BCCI had financed the original acquisition or had an ownership interest in the property.

We pursued this also in direct discussions with the shareholders, and we pursued it increasingly aggressively as the allegations became increasingly in focus.

I would be glad to detail for the committee, if the committee

wishes to pursue it during questions, what we did.

I can say to you we made a thorough investigation to the extent we had the power to do so, and we received back assurances, including assurances directly from the shareholders, that these allegations were entirely without merit. And no one from the Government ever suggested to us that they had information that would contradict it.

Let me conclude. Like many others outside of the BCCI management group, we can't separate what is true from what is not. What I can say is that we are proud of our accomplishments at First American, and we are secure in the knowledge that whatever concealed interest BCCI may have had never translated into actual control over First American's operations.

First American was honestly and capably run throughout the tenure of our management, and it prospered under our leadership. We will continue to cooperate with all of the relevant inquiries by Government agencies, and we greatly appreciate the opportunity the committee has afforded us to set forth the facts on the public

record.

Thank you, Mr. Chairman.

[The prepared statement of Messrs. Clifford and Altman can be

found in the appendix.

The Chairman. I thank you both and appreciate very much that you have willingly cooperated with the committee. We also want to honor the commitment at the request of your counsel to allow Mr. Clifford to have his 2 hour period of rest, and we are prepared to honor that before we go into the interrogation.

I could get my questions out of the way before noon, but I think in fairness to us all that we recess for 2 hours to honor your re-

quest and allow Mr. Clifford to get his rest.

So we will recess until 1:50 p.m., 10 minutes to 2, exactly 2 hours. [Recess.]

Afternoon session.

The CHAIRMAN. The committee will please come to order.

I believe that light indicates that my time is already running, so I want the timekeeper to watch that. We will try to address the questions succinctly and within reason, and therefore expedite the proceedings.

Mr. Clifford, Mr. Altman, of course, I have read the testimony you gave us. I wanted to thank you for giving it to us so we had time to have review read and study it.

I also listened this morning avidly with almost total absorption

to the excellent oral chronological recounting of events.

Our purpose is not to try to impeach a witness. We are not a prosecutorial body; we are not a judicial body. I think, Mr. Clifford, you stated fairly well there at the end what the main underlying basic objectives of a legislative committee such as this one are and should be.

We are not attempting to impeach and prove that the statements you gave us, both in writing and verbally, were inaccurate or with the intention to distract the committee from what the truth might be. You have already begun the process of answering questions about the extent of BCCI ownership in First American. You stated you have gone before a grand jury, you have gone before the regulatory body, before a prosecutor, and that is their area. However reluctant and anguished some of us have been to see prominent people of your status involved, it does add to the rather sad and very tragic history that we have seen develop on this level for the last 5 or 6 years.

I think if there is any conclusion I were to draw, it would be, Mr. Clifford, that in your zeal to accept the challenge and then depart from the traditional profession, you might have forgotten that old saying, that the law is a zealous mistress. But so is financing; so is banking. So that in attempting to satisfy that challenge, which I can understand, and particularly as you related it at this point in

your life, I can see where judgments could be clouded.

Scripture says we can't serve two masters well. Much less could

we serve three, four, five, or even six.

In the case here of both of you, gentlemen, you have worn several hats in your capacity as directors or shareholders or lawyers, attorneys, or chairmen. The biggest concern I have had for some time even preceding this crisis was the fact that almost imperceptibly after the war we had a metamorphosis in our institutional approach to such things as banks, say, chartering a bank. In that process, a substantial corpus of tradition was lost. To be a member of a board of directors of trustees was a trust. It seems to me that the litany of indictments we have had, S&Ls, banks, big and small, that has been lost sight of.

So in the zeal perhaps your judgment became a little clouded. There is both or there have been both in the local DC rules and regulations governing professional conduct and also the rules supposedly governing members of board of directors in banking institutions, fairly explicit rules of expectations and responsibility.

Now, there are a lot of issues that are going to come up any way, but one of these that I think is the most important is to review the function and the basic structure and make sure that we haven't, in effect, vitiated the traditional structural responsibility and expectation from a board of directors.

As an attorney and board director, what happens when the attorney director's professional judgment conflicts with his own personal business interest? Sometimes these things can be so subtle and I think I detected that, Mr. Clifford, in your testimony, where you

felt that it was justified to go and ask for the loan to enable you to buy the stock that you felt you were entitled to because you had promoted the interest of the bank so well that it had become so profitable, if I understood the recitation correctly.

In your case, Mr. Altman, in reviewing documents and all, I see how sometimes almost to the point of absurdity you have a situation where we have a letter from you to you, and you know—I have it here—it is dated June 9, confidential and from Robert A. Altman, 815 Connecticut Avenue, to Mr. Altman.

You say, we look forward to your reply prior to the close of the offering of June 30. Attached for your examination is a memorandum explaining the purposes for a two-stage offering of new right shares approved by the managing directors of Credit and Commerce American Holding, NV, the company, for 1989.

So then the second paragraph, the first right shares offering furnishes the opportunity for you personally to purchase an additional 75 shares of the company at U.S. \$2,774 per share for a total price of U.S. \$208,050. The purchase price reflects the book value per share of the company stock as of December 31, 1988. We enclose for your signature.

The only place I have seen where anybody can be two places at the same time is on Star Trek, where you have this energizer and all of a sudden you have these folks appear somewhere else and they come back.

But this also is troubling because it means that what the rules, even the common law rules as explained in various court decisions, there is a higher degree of standard of responsibility when you have these dual or triple roles, and the traditional common law liability of directors, as explained in one decision is if nothing has come to the knowledge to awaken suspicion that something is going wrong, ordinary attention to the affairs of the institution is sufficient.

If, on the other hand, the directors know or by the exercise of ordinary care should have known any facts which would awaken suspicion and put a prudent man on his guard, then a degree of care commensurate with the evil to be avoided is required.

Any lack of that care makes them responsible. Directors cannot in justice to those who deal with the bank shut their eyes to what

is going on. It had to show up one way or the other.

Not whether what you, Mr. Clifford, call this dual aspect of BCCI, where you had an exterior and interior, but whether it was people involved in the exterior or the interior; they were the same people.

On the other hand the point is that somewhere, though, in this priority of loyalties either, one, to your own interests or as the chairman of the board to the bank or as a shareholder, had to come in.

Now, what I am going to ask Mr. Altman, because in your recital you have stated that the First American has been run most competently beyond any question.

Did you not at any time prior to this year receive a cease and desist order or an improvement or a change in management, for in-

stance?

Mr. Altman. Mr. Chairman, you have made a series of comments and I don't know how much of that you would like me to address.

The Chairman. Please don't limit yourself. Use your judgment. If you want to address my statement ad seriatum as you best recall it, that is fine.

Mr. ALTMAN. Thank you, sir.

As I heard your comments, and I think that I understand them and I understand what lies behind them. I appreciate the chance to

respond to the points that you made.

It is true that in connection with our involvement here we did at times wear different hats. I suppose that is not uncommon given complicated financial transactions. We were counsel to the company. We also served in management positions and what that suggests is that there is a need to be particularly sensitive to any conflicts that may arise.

I might say that I am unaware of any conflicts that did arise. At all times we acted in the best interests of First American to protect the interests of that company and to ensure that it remained a

sound institution.

You made a reference in that regard to our obtaining loans. The loans we obtained to purchase the stock, of course, were not loans that we obtained from First American. Those loans were financed by BCCI and, of course, repaid to BCCI.

Insofar as our sensitivity to these issues, I think I addressed in my opening statement this morning. We did not shut our eyes or become insensitive to the kinds of issues that are now being ex-

plored in these hearings.

When we received indications, even though we thought that they were probably unfounded, we investigated them and pursued them rather vigorously. So I don't think that it would be fair or accurate to suggest that we closed our eyes to these matters. We looked into them.

We talked to our shareholders. We talked to the senior management of BCCI. We talked to the counsel representing Mr. Awan as to his comments. We talked to auditors. At no time did we get any confirmation of these allegations. Everyone we talked to indicated to us that the allegations were untrue and, of course, we didn't have access to the books and records of the company, that is of BCCI.

You talk about the letter, and I suppose it is amusing. It is a valid observation about a letter that I signed and was listed as the recipient. It should be understood that that was a letter that was sent to all shareholders of the company and it was enclosing an offering memorandum in connection with efforts to raise additional capital for First American. The company needed in its records a document that showed that the offering memorandum had been sent to all shareholders so the letter that was signed was simply the same copy of a letter that was sent to all shareholders.

I think that is an interesting document for another reason, one fairly fundamental to the purpose of this committee. That is your inquiring about the issue of the secret ownership of First American. And in that regard, the reason we were sending out offering memoranda is because we were informed that the shareholders of the company wanted information that would support or justify our request for additional capital investment.

And I think it should be understood when you are looking at what was in our minds and how we were operating, that memorandum suggests to you, I think fairly clearly, that we were of the belief that we were sending this to the shareholders who then had to make a decision as to whether to invest.

But your comments relate to conflicts or matters about which we were certainly sensitive. And without prolonging the answer, let me make one final observation.

It is true that we acted as counsel to the company and it is true that we were also involved with management. But it should also be recognized that this was a privately-held company. This was not a publicly-owned company. And the shareholders had specifically asked that we serve in these capacities.

I have here a letter that was written by our largest shareholder. It is written by Kamal Adham, dated March 8, 1985. It is addressed to Clark Clifford, Chairman of the Board.

If I could read two or three sentences of it I think it would be of interest to the committee.

"Dear Mr. Clifford, I wish to thank you for the information you have sent to me which reflects the progress that First American has made in 1984. The other shareholders and I are gratified at the continuing success of the holding company and the member banks.

"At the time we gained control of the company I expressed to you that it was the will of the shareholders that your law firm should take over the legal representation of each of the member banks. You suggested that this be delayed until a reasonable period had been allowed for the transition from the old ownership to the new.

"It is now almost 3 years since we gained control and we see no reason for further delay in complying with our wish in this regard." So the capacities in which we were acting in this privately-owned company were at the express request of and, of course, known to the shareholders as well as our boards of directors.

The Chairman. What about that last question about whether or not you ever had any cease and desist notice?

Mr. Altman. Thank you for reminding me.

In connection with the 1990 break in the real estate market and the financial downturn that that created and the pressure it created on a number of banks, the regulatory agencies came in and investigated our banks and looked at them rather thoroughly. In a couple of instances where we have national banks, one in Washington and one in the State of Georgia, the regulators asked that improvements be made and that certain changes be made in their operations to ensure that those banks remain sound. Those were the subjects of regulatory agreements; I believe they were cease and desist orders. They may have been formal agreements ultimately. There were regulatory agreements reached to ensure that the banks remained in good operating condition.

The CHAIRMAN. I am going to ask unanimous consent to place in the record at this time an outline, sources of payments to Clifford, Altman and related parties. The BCCI connection, through the law firm of Clifford & Warnke, one, pays Clifford as managing partner; two, pays Altman as partner; three, receives fee income from representing Bert Lance during confirmation hearing in 1977; four, receives fee income from representing Bert Lance in sale of National Bank of Georgia; five, receives fee income from representing Credit and Commerce Holdings, Netherlands Antilles, (CCAH, N.V.) a foreign bank holding company that owns Credit and Commerce Investments (CCAI); six, receives fee income from representing CCAI, a Netherlands foreign bank holding company that owns First American Corp.; seven, receives fee income from First American Corp., a bank holding company that owns First American Bankshares; eight, earns fee income from representing Adham, Al-Fulaij Mohammad in takeover of Financial General Bankshares in 1978 and 1982.

First American, one, pays the law firm of Clifford & Warnke as main outside legal counsel for FAB; two, pays Clifford as chairman of FAB; of course, we have heard the modest amount; three, pays Altman as director and president of First American Corp., the holding company for First American Bankshares; four, pays Mr. Altman as director of FAB, New York, FAB-Metro Corp., and FAB-

Georgia.

The Bank of Credit and Commerce International, one, pays C&W as main U.S. lawyer, including head of BCCI legal defense fund after BCCI indictment in Tampa in 1988; two, grants loans to Clifford for purchase of CCAH shares in 1986 and 1987; sale of a portion of these shares results in a gross gain to Clifford of \$11,333,143. Mr. Clifford still owns remaining shares of CCAH that were made possible with BCCI loans; third, grants loans to Altman for purchase of CCAH shares in 1986 and 1987; same thing there; four, gives C&W the power to appoint other attorneys for BCCI. For example, C&W frequently uses Milbank, Tweed as attorney for many BCCI transactions; five, paid Bert Lance to assist with BCCI with U.S. investments; six, pays nominee shareholders to purchase CCAH which in turn owns First American.

I just have one basic question, I would like to have your comment on, given the record of the relationships here, how do you think the American people feel about your rather inextricable association with the senior international banking activities that are now so much in question? Would you not expect the public to be skeptical?

Mr. CLIFFORD. I missed a good deal of the early part of the ques-

tion. I think perhaps, Mr. Chairman, the answer

The Chairman. Let me put it this way. Why should it be unfair to the American public to conclude or believe, given the many direct and indirect relationships with BCCI and their stockholders, that both of you had your objectivity somewhat affected and that your good judgment was thereby clouded in doing business with BCCI and their stockholders?

I know how excruciating, particularly after so many years, that in 1 year that very sacred thing in public life known as credibility

would be in question.

In public life, as you well know, Mr. Clifford, we can tell 1,000 truths and then get caught in one lie and it is very hard to repair and restore the credibility.

In this case I am not inferring that you are lying. I am saying that any objective reader or member of the general public would—would you not believe that there would tend to be a skepticism as to how prudent you were in exercising your judgment as a member of the board of trustees of a bank as well as the legal counsel for that bank in your relationships with this international bank?

Mr. CLIFFORD. I had not been conscious of any conflict of interest, Mr. Chairman. We served in a capacity—let's take, first, as chairman of the board. I started right in it at the very beginning back in May 1982, with the company, and learned the position, learned all of the facts regarding the banks and a very important part of me

went into that particular endeavor.

Now, when I took that position, we had already been involved for some 4 years in representing the parties that were involved in it. So we had an excellent background of knowledge. We had all of the facts in it. So, for instance, when the old Financial General became First American, and we became counsel, we had a background that really no other lawyer or lawyers would have had, and that background was very useful to us, and we started in at once and over 9 years the firm really became the legal department for First American and we grew up with it. It was a small company and it got larger. So we knew that well.

Now, it was not much of a transition from serving in that capacity to moving over and becoming chairman. In fact, it might well be argued that the knowledge that I gained in our legal work for the company that that was an advantage to, of some help to me in

serving as chairman.

I was very close to the board in this instance. We brought in men that I had known and worked with for many years. And these men

were men of good judgment and value.

For instance, Senator Symington is regarded I think, just as a Senator, but for many years he served as president of the Emerson Electric Co., out in St. Louis, which was the largest employer in Missouri, and he had a fine business background. He brought that skill with him onto the board.

And in my serving as chairman of the board, I was conscious of

no conflict in my capacity also as counsel.

Now, when we were asked to represent BCCI, that offered, I must say, no real problem to me at the time. Many times in the past, or certain times in the past, we have represented companies in the same industry that were not in competition with each other.

I know of a number of law firms that will represent two banks at the same time, and they will be in different areas. These two banks could hardly have been more different. One, an American bank, First American, engaged in local commercial banking for various localities. The other, an international bank which ultimately operated in 73 countries, was engaged in international banking. So I felt no conflict in representing—being one of the lawyers for First American and being one of the lawyers for BCCI.

The Chairman. I wonder, would it be possible, and would you be willing to provide for the record your legal memos in that respect?

Mr. Clifford. Yes. Yes, we shall so provide. Will you make a note.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Thank you very much.

I am going to recognize Mr. Wylie now.

Mr. Wylle. I would like unanimous consent to place those in the record.

The Chairman. I will do so.

Thank you.

Mr. WYLIE. Mr. Clifford, I must follow up on what the chairman said about skepticism and I won't say anything behind your back that I won't say to you personally, but a reporter asked me as we left the meeting this morning what I thought about your testimony and I said that I thought you did extremely well; your presentation was most impressive, sir, and I mean that. I said for me, though, it did not pass the "so-called" straight-face test.

To say you represented all the persons involved in the acquisition of First American Bank by BCCI, collected millions of dollars in fees, made money on business transactions and did not know what the boss was doing is a little bit hard for me to believe. I am sorry, I think that you knew or should have known the goings on

between BCCI and First American.

Now, with reference to the National Bank of Georgia and a follow up on that, Mr. Altman, I want to discuss the purchase of

National Bank of Georgia.

On May 8, 1986, you wrote a letter to Mr. Naqvi of BCCI, stating that one potential option for the acquisition of the National Bank of Georgia should be discouraged because it might disclose the link between CCAH, Credit and Commerce American Holdings, and BCCI.

What did you mean by your statement in the memo?

Mr. Altman. Could I see a copy of the document to which you make reference?

Mr. Wylle. We have one at the desk. It is on page 4 of that document.

"In addition, the proposed structure may focus unwelcome attention on the relationship between CCAH and BCCI and raise questions as to whether BCCI has acquired control of NBG." That is on page 4; it is 8181 in your transcript.

Mr. Altman. Yes.

Mr. Wylle. Second full paragraph, second sentence.

Mr. Altman. Yes. I would be happy to comment on this document.

This arises from First American's effort to acquire the National Bank of Georgia. The National Bank of Georgia was one of the last independent major banks in Atlanta, and First American was interested during this time period, 1985, 1986, in expanding. The National Bank of Georgia offered to us a particularly attractive opportunity, one which we pursued.

The matter, however, was one which involved a number of complex regulatory issues, and as a result of that we retained outside counsel to advise us. We wanted to be sure that the transaction

was in complete compliance with U.S. law.

This memorandum is a memorandum that was prepared by the law firm of Milbank, Tweed. It was not prepared by us. It was prepared by Milbank, Tweed. They were offering advice, and on what is marked 180 of my document, it is page 2, it specifically states

that "in connection with the proposed transactions we offer the following thoughts in structuring the option and escrow arrangements so as to avoid violation of the Bank Holding Company Act and the regulations of the Federal Reserve Board adopted thereunder."

The specific language to which you make reference does not concern the issue that we have been talking about here this morning, that is the relationship between First American and BCCI and whether there is some secret ownership.

Rather what this involves is a fairly complicated and technical issue. It relates to the stake-out guidelines that were promulgated by the Federal Reserve during this period when banks were seek-

ing to expand beyond their existing borders.

When they are talking here about the relationship and about questions as to whether BCCI has acquired control of NBG, that isn't control of First American and it doesn't relate to any of the

issues we have been addressing this morning.

Mr. WYLIE. You said it "may focus unwelcome attention on the relationship between CCAH," which is a holding company, "and BCCI." What supposed links were you trying to hide there? It looks like you were suggesting that this might not be the right time to go ahead with that because it might focus unwelcome attention on the relationship between CCAH and BCCI. I am trying to find out exactly what that means here.

You signed the letter—maybe someone else prepared it, but it was sent out over your signature and that of Mr. Clifford, at least the one I have here. In addition, in the final paragraph it says: "In connection with the proposed transactions we offer the following thoughts in structuring the option and escrow arrangements so as to avoid violation of the BHCA and the regulations of the Federal Reserve Board adopted thereunder."

Am I making my point any better than I did the first time?

Mr. Altman. I can understand your concern about the language as it arises in the current context, but what is, I think, confusing you, Mr. Wylie, is the fact that this language is being misinterpreted in the current context. But it really is not applicable to the issues that we are now describing.

You say you used the language. I didn't draft this memorandum.

This is not my language.

Mr. WYLIE. But you signed it.

Mr. Altman. No, sir. I signed a cover letter which transmitted it. The language deals with a fairly particular issue. The issue is the stake-out guidelines that the Federal Reserve had promulgated. Subsequently in the document, what is marked page 191, it talks about an argument could be made perhaps that—it follows with very similar language.

Mr. Wylie. It is pretty clear. Did you read the opinion before you

sent it?

Mr. ALTMAN. I am sure that I did. I don't recall, but I would think that I certainly did.

Mr. Wyle. Then you sort of ratified the thought.

I would suggest that you read it first and then sent a letter transmitting it. That is more of an observation than a question.

The next question, Mr. Altman, is about assertions that you made to the Federal Reserve Board in 1990. On December 13, 1989, William Ryback of the Federal Reserve Board wrote you asking about BCCI loans to initial or subsequent investors. When you replied to him, you never mentioned your own stock deal or the financing you had received from BCCI.

I might ask, why not?

Mr. ALTMAN. In order to be properly responsive, Mr. Wylie, I would have to trace for you some of the conversations and correspondence that I had. If you would indulge me, I would try to explain that exactly.

In December 1989, we received an inquiry from Mr. Ryback asking in a very broadly worded letter about loans that may have been made from BCCI to the CCAH shareholders. I might say, this was at the time we were also doing some of our own inquiries.

We received that letter, and upon its receipt, I talked to Mr. Ryback. In fact, I talked to him more than once. I wanted to understand exactly what it was that he was seeking by way of information. Because the letter was so broadly worded, I thought it might be quite burdensome and quite difficult to respond expeditiously.

Mr. Ryback informed me that he was seeking two specific areas of information, and this was what he would like us to focus upon. The main focus of his inquiry was whether the representations that were made to the Federal Reserve in 1980–1981 were—and those representations were to the effect the BCCI was not financing the purchase of shares in the tender offer—he was wondering whether those representations had been observed.

He had a secondary inquiry, and that inquiry related to whether there were any outstanding loans to CCAH shareholders, because

that could raise a specific issue under the Federal statutes.

Mr. Wylie. Outstanding loans of yours?

Mr. Altman. Well, sir, at the time we had no outstanding loans; at the time this letter was written, our loans had long been repaid, and the information about our loans was not responsive to this inquiry.

I would be glad to go on with what we did in responding to Mr.

Ryback, if you would prefer.

Mr. Wyle. You might want to have the opportunity to supply it

for the record, if that is all right with the chairman.

The point I would make is in the letter from Ryback it says: "it would be helpful if you would provide information on any loans extended to the original or subsequent investors, either directly or indirectly, by BCCI or any of its affiliated organizations," and I don't believe that you included that in your reply to him, at least Mr. Ryback says you didn't.

In retrospect, I wonder if you should have.

Mr. ALTMAN. You have the first letter. There are other letters that were transmitted in connection with this inquiry, and perhaps you don't have all of the correspondence. Let me trace for you the chronology of what happened, if you want me to explain.

When I received the inquiry from Mr. Ryback, I talked to him. He had a very broadly worded inquiry about virtually any loan that would have been made, and he directed me to the specific areas of interest. The primary area of interest was the original fi-

nancing representation, and then, second, he was wondering about any current loans that were outstanding, because they might raise an issue of controlling influence under the Federal statutes and regulations.

Mr. WYLIE. Right.

Mr. Altman. In response to that, we sent out a letter to all shareholders, asking for this information; but in dealing with these Middle Eastern investors, it was generally a fairly slow process in getting responses. The only one I recall who wrote back right away was Kamal Adham. It was easier to communicate with him, because he was often in London.

He wrote back and said he did not finance his purchase of Financial General in 1982 with monies from BCCI. We talked, however, to BCCI and obtained a letter from the top manager at BCCI that also confirmed that BCCI did not finance the original acquisition of the company, and suggested there were other loans to CCAH shareholders that were outstanding. But no detail was provided on those.

Mr. Wylie. In Ryback's letter he said, however, in subsequent years some of the shareholders borrowed substantial funds from BCCI because of a slowdown of their business interests in the Middle East and the fact that Financial General was not paying dividends.

These are notes from a phone call—I'm sorry. These are notes from the files of BCCI, dated January 9, 1990.

In that—I see—it is notes from Ryback's file and a phone call to you. Maybe that needs to be addressed or clarified.

Mr. Altman. There was some more information that perhaps would be useful if I were to present it to the committee, because this was not the end of our discussions with Mr. Ryback. There were a series of them.

Mr. Wylie. Did he ask you about information as to your own loans from First American or BCCI?

Mr. ALTMAN. My own loans from First American?

Mr. WYLIE. Yes.

Mr. Altman. The purchase of stock, of course, was financed by BCCI. The only loan that I have had from First American is a mortgage on my home, which, of course, is well known to the regulators. It was treated as that kind of transaction.

He was not inquiring about loans from First American.

Mr. Wylie. Just from BCCI?

Mr. ALTMAN. From BCCI, yes, sir. And the loans that Mr. Clifford and I each had, which had been repaid in full, and were no longer outstanding, were not responsive to his inquiries.

There was certainly no intent not to disclose it. In fact, the fact that we had purchased shares had been reported to the Fed each

year.

Mr. Wyle. You are saying there were no outstanding loans from BCCI at the time on which you could report then? Is that correct?

Mr. Altman. No, sir, that is not correct either.

Mr. Wylie. What is correct?

Mr. Altman. What we were told—and I cannot say today whether we have been told this accurately; I can only report what we were told and what we passed on—was that the acquisition of what

was then called Financial General, renamed First American, was not financed by BCCI.

That information was provided to the Federal Reserve in writing in a letter from the head of BCCI, and Mr. Ryback asked if the head of BCCI would authorize that letter to be shown to other regulatory authorities, I believe the Bank of England, so that it could be confirmed. He did not indicate that he wanted us to do anything further, because this was the focus of his inquiry, and we obtained permission for him to circulate that letter to other regulatory authorities to confirm its accuracy.

On June 11, I wrote Mr. Ryback a letter in which I confirmed this understanding and asked if he wanted us to try to obtain information about other loans from BCCI to CCAH shareholders, he should so advise us. I could provide you with more detail about

this, and I would be happy to.

Mr. WYLIE. I will have you supply that for the record.

[The information referred to can be found in the appendix.]

Mr. Wylle. I would ask, why did you change the name of the bank to First American Bankshares after it was acquired by foreign interests?

Mr. Altman. I think Mr. Clifford addressed this, Mr. Wylie, in

his testimony this morning.

The company had been named Financial General Bankshares. We did not think that name had much appeal in the market. We were trying to build up a strong American institution, one that was owned by foreign investors, but run by Americans, employed Americans, and served Americans; and we thought that the name First American had a lot of appeal.

Mr. Wylie. I think it does, too.

Thank you.

The CHAIRMAN. Mr. Annunzio.

Mr. Annunzio. Thank you, Mr. Chairman.

Mr. Altman, when you resigned from First American Bank, what was the last CAMEL rating that your bank received from the regulators? As you know, the ratings go from one to five, with one being the best.

Mr. Altman. Are you talking about the holding company, sir, or the various banks? They each have different ratings.

Mr. Annunzio. The various banks.

Mr. Altman. That could be supplied. That information is generally treated as confidential. The regulatory reports are filed, but I don't recall offhand what each bank's rating was; and of course, they change over time. The ratings have been lowered in light of the 1990 operating losses with the collapse of the real estate market, but I couldn't be specific, sir, as to ratings, because I just don't recall them.

Mr. Annunzio. Do you agree with my statement that all of the

ratings were pretty bad?

Mr. Altman. No, sir, I don't think that is true across the board. Mr. Annunzio. Mr. Chairman, I ask unanimous consent that Mr. Altman supply for the record the ratings of these banks. Prior to doing that, will you tell me, were the regulators happy with your banks, First American?

Mr. ALTMAN. First, Mr. Annunzio, it would be difficult for me to supply you with the CAMEL ratings that are now available as we have resigned from the company in mid-August, but I am sure that the company would be happy to supply you with that information, and we would pass on that request.

Mr. Annunzio. I would appreciate anything you can do for the

record.

The CHAIRMAN. I believe, Mr. Annunzio, if you would yield, there may be some question as to the legality of the ability to comply with that request. So I would say, let's wait until we have the regulators Friday, and see what we can get from them, if that would be possible, for dissemination.

Let's put it another way; were the regulators happy with what

they found? Did they send you a bouquet of flowers?

Mr. Altman. I am sure you have learned by your long experience in banking that no banker is going to tell you regulators are happy.

They rarely come in and give compliments to bankers. It is their

job to criticize, and I think by and large they do it rather well.

It is fair to say that regulation and regulators have gotten considerably tougher with all of the problems that are being experienced in the banking industry, and First American was no exception.

Mr. Annunzio. They got tough when the problems began to surface. The reason we have these problems is because they were never tough, they didn't exercise their responsibilities, they didn't do the proper examinations, they didn't do the surveillances of the banks. That is the reason we are in this mess.

Mr. Altman. I am not going to sit here and question your judgment, sir. You are more expert than I in terms of how the regula-

tory system is operating.

Mr. Annunzio. I am not an expert, but I do know that the banking industry is in very bad shape. Somebody should have gotten to

this point sooner than what we are doing now.

Mr. Altman. I would observe, Mr. Annunzio, because I think it needs to be put on the record, that insofar as First American is concerned, it meets all the capital tests. It meets all of the risk-based capital/asset ratios. There has been compliance with the capital requirements that the regulatory bodies have imposed in order to ensure stability.

Mr. Annunzio. I heard that testimony. BCCI had a very close association with the First American Corp., one of the First American

holding companies.

It is my understanding that BCCI had accounts at First American New York. Mr. Altman, as President of First American Corp., did you examine those accounts in relation to the BCCI money laundering indictments and convictions?

Did you order a review of the operations of those accounts? Did you check whether any banks owned by First American Corp. had

BCCI accounts?

Mr. Altman. The answer to your question—and I am happy to address it and would like to expand on it—the short answer to your question is yes; we absolutely did.

When the indictment was returned against BCCI in Tampa, FL, a query was made because we knew that BCCI's business was primarily conducted through First American Bank in New York for a review of those relationships; and that review was provided.

Subsequently, when the chairman looked into the matter, Mr. Clifford, he also asked that every bank in our system review its

money laundering control procedures; and that was done.

Every CEO had to respond to Mr. Clifford in writing to ensure that our procedures were tough and effective. He also asked our audit group to check our compliance procedures to see if they had any recommendations for improving our money laundering controls, and some suggestions were made. And those were adopted and implemented.

In 1990, when there were increasing questions being raised about the BCCI-First American relationship, a comprehensive audit of First American was conducted. And in that regard, I have here a

copy of the audit report—at least the cover to it.

And it reads in part, "The review began in May 1990 to facilitate your efforts to render legal advice to First American and in anticipation of any litigation concerning First American's business rela-

tionship with BCCI.

"On approximately May 1, 1990, the Audit Division began a review to determine the nature and extent of the business relationships which BCCI has with all subsidiary banks of First American, and to review those relationships for the purpose of identifying suspicious activity, if any.

'Another objective was to determine if there is any reference to Panama General Manuel A. Noriega in the records of the banks." I

will read the conclusion reached.

"We found no reason to believe that dealings with BCCI were not normal, legitimate, and conducted as arms-length business transactions. Nor have we found any reason to believe that any First American Bank was being used by BCCI, or its customers, to facilitate money laundering."

I might note that this review started in the spring and wasn't completed until September; and it involved the expenditure of ap-

proximately 3,500 man hours.

And it was not simply the review that was conducted internally that confirms the conclusions we have offered the committee this morning. The FDIC has also come into First American and has conducted a review of our operations, particularly looking for money laundering.

I will quote to you from a memo prepared based on an interview with the head of that FDIC audit team. "Examiners have now completed their review of these areas and have indicated verbally that no violations were noted, and the bank is in full compliance in both

areas."

They were particularly complimentary of the bank's systems and procedures related to the Bank Secrecy Act and the identification

and reporting of large currency transactions.

Examiner Dave Dawson offered the following comments in this regard: One, the bank's policies and procedures were well documented and probably the best he had ever seen. He mentioned that he wanted to retain copies of our program manuals and internal

policies and procedures as models, and that he might share these with other banks experiencing problems with compliance. He would do this on a no-name basis since the manuals are not copyrighted.

Two, in his opinion the bank is "squeaky clean" concerning money laundering issues. He was encouraged by this finding since he had been told to look very carefully at this area and find any

improprieties that may exist. None were found.

I would be happy to offer these documents.

Mr. Annunzio. Without objection, I move that that last statement be made part of the record.

Mr. Wyle. Reserving the right to object. Is that a signed document that you have there, so that we can identify——

Mr. Altman. It has the name of the author on the document. [The information referred to can be found in the appendix.]

Mr. Annunzio. You know my position on laundering of money. Twice our committee and twice the Congress passed legislation we call the "Death Penalty" bill for banks. What is your feeling about shutting a bank down if the bank is found to be laundering money?

That was my original bill, but then we amended it to include that before we shut the bank it could have a hearing before the Federal Reserve Board and take it in combination as to whether the charter should be revoked. How do you feel about that? Do you think it is too tough?

Mr. Altman. I am familiar with your proposed legislation, and I fully understand and support what leads you to offer that kind of legislation.

Money laundering is a very serious problem. They talk in terms of hundreds of billions of dollars that get laundered every year. It tends to facilitate this scourge of illegal drugs, so I understand taking a very tough stance.

The problem that I have with your legislation does not relate to the bill as such. Rather, it relates to some unique concepts that we have under U.S. law.

Under U.S. law under the doctrine of vicarious liability, a corporation is held liable, criminally responsible, for the acts of its lowest employees. If a teller makes a deal with a drug dealer and gets paid and in return for that launders money, that bank can be put out of business because it could be held criminally liable. And all——

Mr. Annunzio. The bank could be put out of business only when that bank has had an opportunity for a hearing before a proper board.

Mr. Altman. What I am suggesting, Mr. Annunzio, is that you have thousands of depositors at that bank, you may have thousands of employees that may be rendering excellent service to the community, and there needs to be adequate safeguards before that kind of decision is reached.

Mr. Annunzio. I have one more question on Mr. Noriega. Do you have any knowledge of this letter to Mr. Yolles dated December 4, 1990? Do you know about this letter?

Mr. Altman. We have trouble hearing you, Mr. Annunzio.

Mr. Annunzio. Do you know about this letter? James E. Lewis wrote the letter, Senior Vice President, Director of Audits, First American.

Mr. Altman. If I heard you correctly, is this a letter from Mr. Lewis to Mr. Yolles dated December 4, 1990?

Mr. Annunzio. That is right.

Mr. Altman. Yes, sir, we have a copy.

Mr. Annunzio. Please, read on the last paragraph for the committee.

Mr. Altman. At the very top of the page under D?

Mr. Annunzio. We have found one reference.

Mr. Altman: At the top of the page, it says First American Bank of Maryland has no account relationship with the BCCI, the records of the bank contain one reference to the name Noriega, an Arthur Noriega paid off an installment loan in December 1985. This loan does not appear to be suspicious or unusual.

Mr. Annunzio. Would you read the top of the page 4 now.

Mr. Altman. Where, sir?

Mr. Annunzio. Page 4.

Mr. Altman. Page 4? Yes. "We found one reference to the name Noriega in the records of First American Bank of New York. On February 24, 1986, Amjad Awan, a former BCCI employee, cashed a \$50,000 check drawn on a BCCI account at First American Bank of New York. The Currency Transaction Report ("CTR"), which was properly filed with the IRS, indicates in part II that the individual for whom the transaction was completed was 'M.A. Noriega' of Panama.'

Mr. Annunzio. Thank you very much.

The CHAIRMAN. Mr. Leach.

Mr. Leach. Thank you, sir.

There is one procedure which I would like to address first. The committee sent the two of you 13 questions, and the response came back very detailed, signed by three distinguished lawyers, and my question to the two of you is, because in my time here, I have never had a response from the law firm. I have only dealt with responses of people to whom one is sent questions.

Have the two of you reviewed the law firm response, which is this document here, to the letter dated September 10 to Henry Gonzalez? And is it the response of the 13 questions that the com-

mittee sent to you?

Mr. Clifford. I believe, sir, the answer is that the lawyers trans-

mitted the answers, but the answers are Mr. Altman's and mine. Mr. Leach. Fair. That is appreciated for the record. Then let me just reference one which relates to the crux of some of the debate at this point in time, if we go to question 6, there are several sentences here.

One, it says until the most recent allegation regarding the secret ownership of First American by BCCI, Messrs. Clifford and Altman, and Clifford & Warnke did not have any knowledge nor did they have any reason to suppose that BCCI may have owned or controlled any shares of CCAH stock.

You have several times today indicated no reason to suppose. The reason I raise and emphasize this reason to suppose, because we are dealing here with the credibility of very thoughtful attorneys and men of the world. In the aforementioned memorandum that Mr. Wylie raised which Mr. Altman sent to the number two leader, Mr. Naqvi of BCCI and which you, Mr. Clifford, sent to Mr. Abedi, the president of BCCI.

There are two references to a circumstance. One is on page 4 of the memorandum which Mr. Wylie read in which you said the proposed structure may focus unwelcome attention on the relationship between CCAH and BCCI, and that is a very clear-cut statement.

Then at the end of the memorandum, the statement is made, a bigger problem, however, arising from BCCI's involvement in the transaction is that it might focus closer attention on the relationship between CCAH and BCCI. And so there are two references in a memorandum that each of you sent to the leadership of BCCI citing the possibility that CCAH and BCCI are interlinked.

A reasonable, prudent person might suppose that you might have suspicion that there was a relationship based upon this memorandum. I have several questions. One is, you indicate another law firm drafted the memorandum. Did they draft the entire memoran-

dum or did you make any modification to it, either of you?

Mr. Altman. There may have been minor modification, but it would not have been of consequence. This language you are focusing on was language that they had drafted.

Mr. Leach. But you have indicated you read it. Mr. Clifford, did you read it as well before you sent it to Mr. Abedi?

Mr. Clifford. I am sure that I looked at it. I can't remember whether I read it in detail. It was prepared by regulatory counsel. It had to do with a very technical field, and I am sure I would not have given it my very close attention, but would have passed it on.

Mr. Leach. Well, the reason I raise it is that a very serious matter was raised in 1986, that is 5 years ago, in a memorandum that you transferred which indicated that there could be reason to suppose some sort of linkage between BCCI and First American's

holding company.

In that regard, part of this whole memorandum also deals with forthrightness from an attorney perspective. It appears that Mr. Altman, that there are recommendations that one ought to approach a potential purchase of a Georgia bank without making full disclosure to the Federal Reserve Board. That strikes me as somewhat at variance with your earlier testimony about full cooperation with the Fed.

I think you are very aware of just how that relates to the memorandum. I would like to ask, just because you are dealing with a law firm, a bank, and leadership of America's political elite. It appears that there are certain memorandums that tie some of your activities to Centrust Savings Bank in Miami.

For example, there is a desk calendar, Mr. Altman, that says that Mr. David Paul from Centrust indicated that you had an 8 o'clock meeting with David Paul and Gaith Pharaon on June 24,

1988 at First American Bank. Is that right?

What were your relationships with Centrust? Did you ever discuss the possibility of doing business with them, serving a client to help buy them? Or were you interested in buying them? Was there any relationship with sub-debt purchases which BCCI was involved in? Were you and Mr. Clifford involved in any of that?

Mr. Altman. Mr. Leach, I have seen the reports in the newspaper that apparently Mr. Paul had my name on one of his diaries. To the best of my recollection, I have never met Mr. Paul. To the best of my recollection, I have never talked to Mr. Paul, and in that same regard, to the best of my recollection, I have never had any discussions with Centrust.

I believe, on that date, I had a meeting with Dr. Pharaon, and it may well be that Mr. Paul was meeting Dr. Pharaon, and he was indicating to him where he was going to meet him or pick him up or something to that effect. I am speculating here, but to the best

of my recollection, I have never talked to Mr. Paul.

Mr. Leach. Mr. Clifford, have you had any relationship with Centrust, with David Paul, Dr. Pharaon on the whole issue of Centrust dealings with BCCI?

Mr. CLIFFORD. I have had no contact of any kind with Mr. Paul. I had no relationship of any kind with Centrust, and all that I know about that is what I read in the paper.

Mr. Leach. I appreciate that very much. Thank you.

Mr. Altman. Mr. Leach, if I could just say for the record, so that there is no confusion, as far as this memorandum on the National Bank of Georgia is concerned, I want to be clear, this was a memorandum that was prepared by another law firm.

This language, although it is now being seen in the context of the current controversy to relate to other issues, really related to this particular transaction, not the question of ownership of BCCI

bv——

Mr. Leach. But the references were very strong, and it was transferred by both of you separately to the two top officials without reference to being prepared by anyone else. And there are collective uses of pronouns like "we," and it looks like a very personally concerned memorandum, just read in the abstract.

Mr. Altman. I can understand how you would be reading it, sir. What I am saying to you is that it was a memorandum that was drafted by another law firm, that is their language, and it related to that specific transaction, not the larger issue that we have been

here discussing.

And insofar as disclosures were concerned, the disclosures to the regulatory agency were handled by that law firm. I just wanted that to be on the record so that there was nothing left unanswered.

Mr. Wylle. Would the gentleman yield?

Mr. Leach. Of course, I would be delighted to yield.

Mr. Wylle. Maybe part of the confusion comes from the minutes of a meeting which was held on Monday, October 2, 1989. It says the meeting began at 2:45 and was attended by the following; Mr.

Robert Altman, Mr. J. Griffin Lescher, Mr. Imran Imam.

During the meeting, Mr. Clark M. Clifford, CMC, attended for a short period of time. The second paragraph in that memorandum says that Mr. John Weinberg of Goldman Sachs, who was a friend of CMC, added that besides Barnett, there are other banks such as Centrust, NCNB, and Maryland National in the southeast region who have also expressed their interest in the merger with FAB.

Maybe there wasn't any connection or you have no relationship with them. Did you discuss that possibility with Mr. Gaith Phar-

aon, the possibility of merger?

Mr. Altman. Merger with Centrust? To the best of my recollection, no, sir. We never had any discussion about a merger with Centrust. It is true that we had been approached by Barnett and some other banks, but I don't recall ever a discussion about Cen-

Mr. Wylie. Maybe this is an unfair question of you, but how do

you explain this document, which was found in BCCI's files?

Mr. Altman. Obviously, I can't explain a document from their files. This is a document that, prior to the current investigation, we had not seen. This may well be information that the author of the document had that perhaps he had talked to Dr. Pharaon about some interest of Centrust, but to the best of my recollection, that has never been raised with us.

Mr. Wylle. We will have to follow up on that, but it does add to

the confusion.

Mr. Altman. Yes, sir, I can see that it would.

The CHAIRMAN, Mr. Hubbard.

Mr. Hubbard. Thank you, Mr. Chairman.

One of the major arguments which Mr. Clifford and Mr. Altman put forward in their defense is the fact that there exists no evidence that BCCI ever had any influence over the management of First American.

Many of us find it difficult to believe that the chairman of the board and the president of a major Washington bank, especially men of your stature and reputation in the business world, didn't really know who was controlling your bank.

Mr. Altman, there are reports that you regularly submitted financial information to BCCI so that the bank could evaluate First

American's condition. Is that accurate?

Mr. ALTMAN. It is.

Mr. Hubbard. Why did you do that? Mr. Altman. Mr. Hubbard, when we went through the regulatory proceedings, it was explained to all parties that BCCI had a continuing role. BCCI's continuing role was, as we have described, they were a communications link for us to communicate with the shareholders given the logistical problems in communicating with people scattered in the Middle East. And second, they were the investment advisor.

There were other relationships, as well, that were disclosed. In our Federal Reserve application, it specifically says that it is contemplated that BCCI is going to continue to provide these services.

Mr. Hubbard. Why would they provide these services?

Mr. Altman. In this case-

Mr. Hubbard. Good friend or did they have control?

Mr. Altman. No, sir. I am sorry?

Mr. Hubbard. Was it a friendship relationship or was it control of First American that caused them to advise you periodically?

Mr. Altman. There was no control relationship, sir. No, that is not what led to our dealings with BCCI. As I say, we disclosed in our written application and oral discussions that there was going to be a particular relationship.

The investors here were people of very substantial means. Several of them were rulers or members of ruling families who were making an investment. They were passive. It seems quite natural for us that they would have someone who would follow the progress of that investment, and BCCI was expressly designated to have that function.

In the tender offer document, which was distributed to the world when the company was bought, it states expressly in that document about this role of BCCI. So everybody knew that BCCI had this role.

Now, in that regard, for us to provide financial reports on the health and progress of First American we always understood would be consistent with that understanding.

Mr. Hubbard. May I ask if you know Mr. Shahid Jamil of BCCI or Mr. Agha Soheb of BCCI? Do you know either one of them?

Mr. Altman. I am sorry, would you repeat the names?

Mr. Hubbard. It is not like Smith or Jones, but Shahid Jamil, J-A-M-I-L or Agha, A-G-H-A, S-O-H-E-B, Agha Soheb?

Mr. Altman. The second name is not familiar. The first name I do know. He was a former officer in BCCI.

Mr. Hubbard. Did you have discussions with him from time to time about First American Corp.?

Mr. Altman. Many years ago. I haven't had them in a number of years. This probably would have been back in the early 1980's, but Mr. Hubbard, I just want to make one point.

When you ask questions about control, I think we have tried very hard to make clear to the committee that the control of this company did not rest with BCCI. The control of this company rested with Mr. Clifford and with the board of directors.

Mr. Hubbard. I don't remember having said that. Let me ask you if you are familiar with a document from Shahid Jamil, whom you may know.

Mr. Altman. I have met him.

Mr. Hubbard. You said you met him in the early 1980's. Looking at a document dated July 27, 1984, it is from Shahid Jamil to S. Naqvi, who was the number two man at BCCI. He says in type, "Please find enclosed a review of the First American Bankshares for the half year ended June 1984. The bank has achieved the budget figure for deposits and exceeded that for loans."

It goes on to say, "Perhaps Mr. Altman may require some assistance and guidance in enabling him to reach the budgeted income figures in the second half of 1984 without further increasing their loan portfolio and raising the loan deposit ratio beyond existing

64.72 percent.

Now, in the P.S., handwritten, it says, "I have since discussed the half yearly results of FAB with Mr. Altman to draw his attention to the areas in which the group's income is falling behind budget on a pretax income basis.'

Why would Shahid Jamil write to Mr. Naqvi and discuss these

issues that I have read, both in typing and handwritten?
Mr. ALTMAN. Mr. Hubbard, I can't give you the motivation of Mr. Jamil in writing this, but I can explain to you what our understanding was of these dealings. I would state it simply—the links between First American and BCCI in terms of this investment advisory role were well known.

These investors were important clients of BCCI. They were presumably paying the bank for that investment advisory service.

Mr. Hubbard. Paying which bank? Which bank was paying which bank?

Mr. Altman. No, sir. The investors, the Middle Eastern owners of First American, the ones we thought had owned First American had used BCCI as an investment advisor. They had invested hundreds of millions of dollars in this property, in First American, and they had advised us they wanted to keep BCCI, as their investment advisor, informed of the financial progress of the company. And that was disclosed to the regulators at the time we had the regulatory proceedings. And that was the practice that we observed.

Mr. Hubbard. Do you know Mr. Amjad Awan, A-W-A-N?

Mr. ALTMAN. I do, sir.

Mr. Hubbard. Would you agree that he is an officer of BCCI who has been convicted of money laundering?

Mr. Altman. Yes.

Mr. Hubbard. There is a transcript of a September 1988 conversation between Mr. Amjad Awan and a Federal undercover agent in which Mr. Amjad Awan states that, number one, Mr. Altman and Mr. Clifford are BCCI's lawyers; number two, BCCI owns First American Bank; and three, Mr. Altman advised Mr. Awan to be transferred to Paris in order to avoid a subpoena to testify before the Senate Foreign Relations Committee.

Would you care to comment on the truthfulness of these state-

ments?

Mr. Altman. I would very much like to comment.

There are two issues I think that are raised by your question, Mr. Hubbard. The first I touched upon this morning. That is, Mr. Awan's comments that the First American banks were owned secretly by BCCI. I think that I read into the record this morning what else Mr. Awan had said about it to the effect that "this may be far-fetched, it may sound stupid, but this is my guess"; and I have explained to you that even though we thought what Mr. Awan said was inaccurate, we pursued it.

We asked counsel in that case to talk to Mr. Awan and his counsel, and we were informed that there was no factual basis for the statements, that they were speculation on his part. Then we followed up with other inquiries to the management and auditors of BCCI and to the shareholders who we understood to own First

American. So we pursued that rather vigorously.

I don't think I have to detail that again, although I would be

glad to.

Mr. Hubbard. One more question, and then I will close, Mr. Chairman. Documents provided to the members of our committee indicate that BCCI approved tens of millions of dollars in loans to both Mr. Clifford and Mr. Altman.

Is that right?

BCCI approved tens of millions of dollars in loans to both of you?

Mr. Altman. I am sorry. I am not sure I follow.

Mr. Hubbard. BCCI approved tens of millions of dollars in loans to both of you, Mr. Altman and Mr. Clifford. The proceeds of the loans were used to buy stock in First American's holding company. Are these correct?

Did BCCI approve loans to both of you, just yes or no?

Mr. CLIFFORD. We discussed that this morning, if I remember correctly, that there were two instances, one in 1986 and one in 1987, in which Mr. Altman and I each made a loan from BCCI to buy First American stock.

Mr. Hubbard. Would this not represent a conflict of interest?

Mr. CLIFFORD. It did not. I do not know what conflict of interest was involved there. I am not conscious of any conflict of interest.

Mr. Hubbard. Mr. Altman, would you answer that?

Mr. Altman. I would agree. I can see no conflict of interest, Mr. Hubbard.

Mr. CLIFFORD. There is one question you asked Mr. Altman that he didn't get a chance to answer, and that is something about a comment Mr. Awan said.

Mr. Altman. If I could answer that.

Mr. Hubbard. Right. Mr. Awan indicated Mr. Clifford and Mr. Altman are BCCI's lawyers. Is that true?

Mr. CLIFFORD. That is true.

Mr. Altman. If I might comment on the issue about Mr. Awan leaving the country, which you had also raised. I would like to

trace for you the chronology of what happened.

I can do it fairly quickly. Subpoenas were issued by a Senate sub-committee in July 1988 and we were asked as counsel to BCCI if we would handle the response to these subpoenas. I, together with other lawyers from our law firm, traveled to Miami where the subpoenas were served.

One of the subpoenas was issued to a Khalid Awan, K-H-A-L-I-D. It was an error. The subpoena should have been issued to Amjad

Awan.

Now, it has been suggested that when we learned of efforts to serve Mr. Awan with a subpoena, we took efforts to ensure that he did not testify.

The fact is when the Khalid Awan subpoena was discovered to be in error in mid-August, we immediately notified the Senate subcommittee that the proper party was Amjad Awan, and I would ask that the committee place this document in the record of these

proceedings.

Further, Mr. Awan was interviewed by us. Mr. Awan, contrary to what is being suggested, had testimony to give based on what he had told us that was very favorable to BCCI. He told us, among other things, that there were no money laundering practices at BCCI. It was testimony that we very much wanted the Senate committee to hear.

Now, Mr. Awan also said in that transcript, the transcript that has been referenced on September 9, that he was terribly concerned about his personal safety from Mr. Noriega, and he says in the same transcript that is being quoted, quote, "The reason being that if I say anything about Noriega and it's reported by the press,

I'm dead. He's gonna kill me." Close quote.

In response to this, the management of BCCI was going to transfer Mr. Awan to Paris so that he would have a lower profile and so that he would avoid or lessen the likelihood of injury, but this was not attempted as an effort to prevent him from testifying. As a matter of fact, on the very day that Mr. Awan gives this undercover taped conversation, September 9, by coincidence we had a meet-

ing with the Senate subcommittee staff. We advised the Senate subcommittee staff on that date that Mr. Awan may be transferred to Paris.

This was not secret. We suggested to the staff that what they should attempt to do, if they really wanted to understand the BCCI organization, and we were getting information from BCCI's officials that was quite inconsistent with the allegations that were being made about money laundering, that they should interview the very top officials of BCCI in London. Those officials had indicated to us that they were willing to have those interviews.

What we suggested to them was that if they would go to London for those interviews and if Mr. Awan were transferred to Paris, Mr. Awan could come to London and give his interview there, so that they could get the testimony. And that was very agreeable to

the staff.

They were very interested in going to London, and there were a number of discussions back and forth about how the staff would make these arrangements. Now in point of fact, Mr. Awan subsequently—shortly thereafter—resigned from BCCI. He had other plans in mind, unknown to BCCI, and he retained separate counsel.

It happened to be an attorney that was recommended to him, it is my understanding, by the Senate subcommittee staff. He gave his testimony. In that testimony, he did as he had with us, stated that BCCI was not engaged in money laundering.

Obviously, this was sworn testimony that he had given, so his testimony when he had separate counsel was consistent with what he had told us. There was no money laundering activity.

In short, there was no effort to prevent Mr. Awan from giving his testimony. This whole issue about his transfer to Paris was in relation to the concerns he repeatedly expressed—including in that very conversation—about his personal safety.

And I might also note, as a matter for the record, that under the United States Code, Mr. Awan, as a resident of the United States, was subject to subpoena in Paris in any event. But I wanted to

clear this up for the record.

Mr. Hubbard. Thank you, Mr. Chairman. The Chairman. Thank you, Mr. Hubbard.

The Chair will announce that it is about 3:23. We had the morning session and some Members arrived on time and others came in later, and then in the afternoon session we started out with much fewer Members than we have now. So, I think Mr. Hubbard will be the last one that the Chair will recognize for more than 5 minutes.

This is to be regretted, but if we are going to get out of here in an expeditious fashion, we are going to have to follow the strict rules of 5 minutes afforded each member to ask questions, and in that way I am sure that given the number present and those liable to come in a little bit later, we will be able to round this up by 5 p.m. at the latest. So I regret to say that I guess this is one of the last vestiges of seniority privilege, but the rules do mandate that each member shall have an interrogation, 5 minutes in which to propound questions.

Mr. McCollum.

Mr. McCollum. Thank you, Mr. Chairman.

Mr. Clifford, throughout your testimony and Mr. Altman's, you have given us an indication that you were innocent of knowledge of any reason to be suspicious of the investors in First American and CCAH, that they were all upstanding individuals, their reputation was impeccable. I mean, that is what is throughout your testimony and what I have heard today from Mr. Altman, and yet why I am concerned, it really does concern me and raises considerable doubt in my mind why reasonable, well-versed people like yourselves would not be suspicious of some of these folks when I consider the fact that you have been Secretary of Defense and you have had all of these positions of knowledge in the world affairs.

I am sure you must have known that Sheik Adham, who was the principal organizer of these investors, as I understand it, and the main person, the first person on the list of those accused by the Federal Reserve of having been the nominee of BCCI and having had a cozy relationship and having actually been a proxy for BCCI in the acquisition of First American, I am sure you must have known that Sheik Adham was implicated very strongly back in the seventies in the scandal involving Boeing and was accused at that time of receiving bribes of substantial amounts in the airplane

scandal of that era.

It was really your era. Were you not aware that Sheik Adham was a suspicious character from that period, and didn't that concern you at all in all of the dealings you have had with him, particularly with regard to this matter of the acquisition of First American?

Mr. CLIFFORD. I had no prior information about Kamal Adham. At some point I learned that for some period of time he had been head of Saudi Arabian intelligence, and I learned from others that in that regard our intelligence operations had a very high opinion of him.

They felt that he had cooperated exceedingly well with the United States, so what I heard about Kamal Adham was commend-

atory rather than critical.

Mr. McCollum. Mr. Clifford, I realize that you must have heard that or you wouldn't be saying it. You are an honorable man. But it was all over the press at that time, in the seventies several times, and there are press reports that have been reported here again before us that Sheik Adham was accused of taking bribes. Whether our Government looked the other way, I don't know.

I want to ask you, Mr. Altman, something about the sale of your stock to Mr. Hammoud. It has come to my attention that Mr. Hammoud, and I believe I am right, he is the person to whom your stock that has been in the papers so much was sold for some \$6,800

a share; is that not correct?

Mr. Clifford. Mohammed Hammoud.

Mr. McCollum. Mohammed Hammoud. Both of your stocks were sold to him, am I not correct?

Mr. Clifford. That is correct.

Mr. McCollum. It has come to my attention that Mr. Hammoud has been well known in the media and in the Middle East for some time as having been the primary financier of the Hezbollah. It was his financing of the Hezbollah, which, as you know, was Islamic Jihad, which was responsible for the bombing of the Embassies and

the Marine barracks over in Lebanon in the crisis that occurred just a few years ago. To me, he is a very explosive character, and I am curious to know whether—Mr. Altman, I will ask this of you, I could ask it of either of you, I suppose—whether you realized at the time that Mr. Hammoud was making this acquisition of your stock that that acquisition was financed by BCCI?

Did you know that?

Mr. Altman. Mr. McCollum, I did not know it then, and the fact is I do not know it today. I guess a couple of observations about Mr. Hammoud are in order.

The comment you make about Mr. Hammoud's involvement is startling to me. This is not information that I was aware of. Mr. Hammoud had been a shareholder of First American for a couple of years. He is, it should be noted, someone who has not been listed by the Federal Reserve as one of the nominees who was holding stock for BCCI.

Apparently, the Federal Reserve considers him to be a legitimate shareholder or considered him to be. Mr. Hammoud died in the

spring of 1990.

In that regard, his estate continues to claim the stock and asserts that it owns the stock of First American, and we do not have information about loans from BCCI to finance the purchase. We have seen those reports in the newspaper. We have not seen the evidence, and we did get advice from BCCI accountants which indicated they did not have liens against those shares. But the exact truth as to all of this is something that—

Mr. McCollum. Mr. Altman, we have a document, it is one of our documents here before the committee that has been produced, and it indicates that Mr. Hammoud had pledged all of the stock to BCCI. I would be glad to show you that document, have it marked

as an exhibit.

I don't think it is currently an exhibit, but the committee has it. It has been part of the documents that have been presented, and it indicates that. Also, there are letters in exhibits that have been marked before the committee of exhibits 43, 44, 45, and so forth, from the Federal Reserve that indicate they have great deal of information indicating that Mr. Hammoud did finance this through RCCI

Maybe they don't have every final proof they need, but the pledge of this stock to BCCI alone seems to me to have been one of the big pitfalls of this whole process, and what I am going to conclude—because my 5 minutes is up—and I want to honor the chairman's request for only 5 minutes—what bothers me the most, this is not the simple fact, because I think is a fact that it was wrong and it will come out ultimately to be proved to be one of the illegal parts of this process, but the fact that Mr. Hammoud and Sheik Adham and others, whom I don't have time in 5 minutes to get into, who were involved with First American in one way or another, either as primary investors initially, as proxies for BCCI, or as proxies in the absence which is what Mr. Hammoud was in the purchase of your stock, really as a front apparently for BCCI.

purchase of your stock, really as a front apparently for BCCI.

These folks had bad track records. They had public bad track records known in the Middle East and, in the case of Sheik Adham, known in the world press for the bribes with connection to Boeing

that should have been red flags to gentlemen as knowledgeable as the two sitting here.

That bothers me. I don't accuse you of prior knowledge, but I am concerned that you did turn your head to this fact and that you presented yours today so completely as innocent of any concern over the kind of background these gentlemen had you were dealing with.

Thank you, Mr. Chairman. My time has expired.

Mr. CLIFFORD. May I suggest in answer to that that Kamal Adham was the leading investor. He was investigated thoroughly. Our investigatory agencies in the United States gave their opinion of it.

The New York report came out which I read this morning, and those investors were checked. No derogatory information was

learned about, for instance, Kamal Adham.

Mr. McCollum. Mr. Chairman, if I might, I would like to request unanimous consent that two reports of the House Republican Task Force on Terrorism be submitted to the record and admitted to the record for reference with regard to some of these matters we were discussing, if I could ask that unanimous consent.

The Chairman. Without objection, it is so ordered.

[The information referred to can be found in the appendix.]

Mr. McCollum. Thank you, Mr. Chairman.

Mr. Altman. Mr. Chairman, in fairness, if I could add two points in reference to what Mr. McCollum has said. He has made reference to a letter from one of the accounting firms from BCCI. What was not referenced, and perhaps, Mr. McCollum, you don't have a copy of this, there was subsequent correspondence commenting on a claim that BCCI may have liens against the shares which was sent to us on November 30. And it states, "We regret to inform you that both these letters were written under some misunderstanding on our part and request you to please treat them as cancelled and withdrawn."

We were told, in effect, that BCCI had no liens against those shares. And in communications with Mr. Hammoud's estate, with

his son, they have advised us to the same thing.

Now, I don't know what the true facts are as to financing, but I think it is also pertinent to observe that Price Waterhouse has said in their report to the Bank of England that there is substantial question about the validity of BCCI's records, and, therefore, I think some caution has to be exercised.

Mr. McCollum. Well, Mr. Altman, I understand what you are saying, but I also understand that the Federal Reserve is very suspicious of this and does have an indication and a flavor from a different direction of what you have indicated, but all this will be sorted out in due course.

My concern is over the character of these two individuals, the type of transaction that appears to be here and the fact that you two, Mr. Clifford and Mr. Altman, did not appear at all today or in the past to be concerned about the character of the people you were dealing with.

I think there was reason to be concerned about the character.

Thank you very much, Mr. Chairman.

Mr. Altman. Mr. Chairman, just a final comment.

Mr. McCollum has made reference to the Boeing matter. I think when the Federal Reserve officials testified before Senate Committee on Banking, Housing, and Urban Affairs, they specifically said they had looked into that matter and did not find any proper basis for criticizing Kamal Adham.

I would ask that the following also be included in the record.

We have, for example, a letter here from Barclays Bank, and it reads as follows: Dear Sir—it is addressed to me. "We understand that you require a bank reference for His Excellency, Sheikh Kamal Adham. We are pleased to advise you that His Excellency Sheikh Kamal Adham is one of the most prominent citizens in Saudi Arabia. He is highly regarded and enjoys a first class reputation in business and financial circles. Sheikh Kamal has important financial resources at his disposal and possesses very substantial investments in Saudi Arabia and abroad, in real estate, banking and in trading and industrial companies. There is no doubt that he has the capacity to make substantial financial commitments."

It is written by the vice chairman of Barclays.

Mr. McCollum. Could you give us the date on that letter, Mr. Altman?

Mr. Altman. April 22, 1981. This was in connection with the regulatory proceedings.

The CHAIRMAN. Hearing no objection, is is so ordered. [The letter referred to can be found in the appendix.]

The CHAIRMAN. I believe you also had requested some other doc-

uments when Mr. Hubbard was asking questions?

Mr. Altman. Yes, sir. There is the affidavit that was sent by mistake to a Mr. Khalid—excuse me—a subpoena that was sent by mistake to a Khalid Awan, and we informed the committee they should have directed the subpoena to Amjad Awan. I would ask that that also be included.

The CHAIRMAN. Without objection, so ordered. And it will be included at the time you requested during the Hubbard interrogatory

[The information referred to can be found in the appendix.]

The Chairman. Ms. Oakar.

Ms. OAKAR. Thank you, Mr. Chairman.

To the distinguished gentlemen who are testifying, I, first of all, want to thank you for being very open and candid, and you could, of course, have invoked the fifth amendment. You didn't do that, and so I want to say that I appreciate that, and you, Mr. Clifford, spoke, and so did you, Mr. Altman, spoke rather extemporaneously, and so I have appreciated the manner in which you have testified very much.

I want to tell you what bothers me, and I am not going to get caught up with the technicalities, but an effort to give you the op-

portunity to respond.

I find it almost preposterous to believe—and I want to believe you—I really do for many reasons, but I find it almost preposterous to believe that given your close relationship, and you have not denied that, and I think you have been very candid in that, with BCCI, the lines of credit, the fact that they had hired you, Mr. Clifford, as their attorney, that Burt Lance asked you to get involved and so on, that ultimately you took over the chairmanship and the

directorship of the First American Bank and that BCCI even paid

accounting bills.

When you look at the intimate relationship that you had with BCCI, it is very difficult for me to believe that you did not know that for the entire time BCCI owned First American, and I know Mr. Altman, reading the news reports and some of the Senate proceedings, when this was exposed in July by the European Community, you said that is hard to believe.

At least that is the way you were quoted. Then later on I think the manner in which you both expressed yourselves is that you were duped by these people. Can you understand how this doesn't

mesh.

I mean, you are a terrific attorney, Mr. Clifford, among other things, and so are you, Mr. Altman. If you had all of these down in one column, all of your relationships, and in the other column, the issue of your tenure as leaders of the First American, wouldn't you find it astounding that there was—that you had no knowledge that they were really controlling First American?

Mr. CLIFFORD. I can understand your concern in this regard. Week after week, month after month, torrents of news has poured out about BCCI. So we are all saturated with it. The fact is, if we go back 13 years when we started off, I dwelt on that this morning.

Ms. OAKAR. I know you did. I was here for the entire time.

Mr. CLIFFORD. We had information about BCCI, they were accepted, the Bank of England gave them their stamp of approval. They floated an issue in this country that was offered by some of our leading underwriters. They were accepted.

It is this outside bank that we were dealing with. Now, all I can say, if I might finish that, is that we did not know during this period of time that they were engaged in any kind of questionable

activity.

That did not come to our attention.

Now, let me suggest to you that during this time period, during these years, the Bank of England was their regulator, the headquarters of BCCI are in London, and the Bank of England regulated, they examined. They did it on a regular basis and would report.

They found no evidence of wrongdoing during that period of time. Any number of others were involved, other regulators were

involved.

Ms. Oakar. If I can just say, I think you correctly said this morning that that is certainly one of the things that our committee ought to look into, the worldwide regulation of institutions. But what I want to get back to is this point, and this is the point that I want to underscore: we could talk about whether or not it was—it may have been legal, but whether or not it was questionable, you know, you are getting \$10 million lines of credit BCCI, and on and on, and the staff prepared a chronology, and you ought to take a look at this to make sure that you agree with the chronology that has been presented here, but if I—if it is accurate, it is astounding to me the number of transactions and the relationship, the close relationship which, frankly, I would question whether you should have done that and whether or not, while it may have been legal, whether or not it was totally ethical or does give the appearance of questionable qualities, and you see, if all of this is true, and if you

were so closely connected in every way almost possible, then it is honestly hard to believe because of your involvement with each other than you did not know they were essentially running First American, and I think the gentleman from Alexandria said quite clearly, for the benefit of the stability of the institution, that the institution is doing reasonably well, and you have stated that the institution is not—the major problems others have had, and that is run ethically, so I don't have any question to believe that is not true, but what I really think is the bottom line of my interest, anyway, is whether or how it is that you could not have known given your very close relationship that they, in fact, had a lot more to do with First American than you supposed, and I want to give you the opportunity to respond because I think that is the bottom line, not whether or not the institutions in England that have oversight do not have their responsibility or whether or not they had a reputable financial institutions involved in the United States of America like American Express, Bank of America, and so on, but what your responsibilities were because one of the questions before this committee is what are the responsibilities of board members in the transactions of these institutions? How is it that these astounding occurrences take place in bank failures, in money laundering, in, you name it, and what is the responsibilities and have the members of the boards of trustees of financial institutions been ethical in their conduct so that they really operate as board members and not as profiteers and not as individuals who have conflicts of interest, and I think that is the question to clear your name, in my judgment, that you have to address, how it is that you could be so closely related to BCCI as attorney, as one individual is getting astounding lines of credit and loans and God knows what and how it is you didn't know that they were essentially running First Ameri-

That, to me, is what you have not quite convinced me of, and I am not a jury or anything, but, Mr. Chairman, if they could respond to that, I would really appreciate it.

Mr. CLIFFORD. Well, I think that you have touched on a matter that is important for me to comment upon. There are two types of

control in this banking operation.

Mr. Taylor, of the Federal Reserve, commented on it some time ago. He said one type of control is control of stock. Another type of control is control of the management of a company. There is a

great distinction between the two.

Now, we had no way of knowing, if you please, that BCCI had secretly acquired stock in First American. I don't know of anybody else who knew about it. None of the regulators knew about it. They didn't acquire it out in the open market. They acquired it secretly, apparently, if we can believe what some of the reports say. So that they might have acquired this stock, but no one knew that they held it. Later, when it was found that they held it, then the charge came out that they controlled First American.

But that was that technical phase of owning stock that would lead to the claim of "control". Now, as far as their controlling the operations of First American, which is really the important factor, I know that they did not control First American. From the day we took it over in May 1982, they had no control whatsoever of First

American. We made literally hundreds of decisions during the 9 years that we controlled First American. At no time did they make any one of those decisions. I am under oath.

I say it to you as clearly as I can. We made the decisions, and

First——

Ms. OAKAR. They had no influence on your decisions?

Mr. Clifford. I am sorry.

Ms. OAKAR. They had no influence on your decisions?

Mr. CLIFFORD. We would discuss matters with them from time to time, but we ended up using our judgment. We might get their opinion on something, particularly if it was involved in a foreign field.

When the time came, after we consulted with them and others and the decision was made, the board of directors and I made it, and I so swear.

Ms. OAKAR. Well, Mr. Chairman, I had another question, but I will respect your request.

Thank you very much.

Mrs. Roukema. Mr. Chairman, I pass for now.

The CHAIRMAN. Good heavens, Mrs. Roukema.

Mrs. ROUKEMA. Surprisingly enough.

The CHAIRMAN. Thank you very much. That will make up for some of the other expended time.

Mr. Vento.

Mr. Vento. I think, Mr. Chairman, after the last exchange I understand that Mr. Altman and Mr. Clifford, the chairman of the board of directors, made decisions but the point is they were running back and forth to London and BCCI was the advisors to them. In other words, there were frequent trips to report and to consult with the advisors at the BCCI who were the representatives of the shareholders; is that right, Mr. Clifford?

Mr. CLIFFORD. We made regular trips to London and reported to Mr. Abedi and Sheik Kamal Adham on developments that took place. They wanted to be kept informed so that they could keep

their investors informed.

The investors started by investing some \$200 million. I think it got to the point where they had invested \$500 million in this banking property and Abedi and Kamal Adham wanted to be kept fully informed.

I looked at my records and I found that in the 13 years in which we represented BCCI from the very beginning of the litigation to the end, I had made 26 trips to London. So I was going twice a

year.

Mr. Vento. Of course, you were, but there were other officers—Mr. Altman and others were making similar trips so there was a regular communication going on and you were kept informed of that communication that went on between this so-called advisor and other officers of what became First American Bankshares; is that correct?

Mr. Clifford. Yes.

Mr. Vento. So you knew their views and attempted to try to respond to that, thinking that you were responding to the shareholders; is that correct?

Mr. CLIFFORD. The shareholders turned the responsibility of monitoring this investment over to Mr. Abedi and to Kamal Adham and we understood that so we reported to them rather than going around to report to 14 other individual shareholders scattered all through the Persian Gulf.

Mr. Vento. Did you have other shareholders that you had to report to in a similar fashion? Was this the exclusive corpus of

shareholders?

Mr. CLIFFORD. When we had access to other shareholders we also talked to them.

Mr. Vento. Did you have representatives of other shareholders

that you consulted with?

Mr. CLIFFORD. Yes. On one occasion, at a time in which a matter came up that was particularly important, we went to Abu Dhabi and met with the principal advisors there in order to discuss the situation that had come up so they had firsthand information.

Mr. Vento. Mr. Clifford, you indicated that you had had a legal relationship as well with BCCI—in addition to other responsibil-

ities, you are legal counsel to BCCI?

Mr. Clifford. I started representing them when they were first

taken into court by Financial General back in 1978.

Mr. Vento. There was a claim that the Lance group was involved with that. At least there had been an allegation that they had been involved. It would seem to me that the representation of the eventual shareholders would have—didn't it ever occur to any of you there might have been an effort to circumvent the fact that BCCI was, in fact, more deeply involved? For example, there had been a Federal Reserve Board letter in which it is asked whether or not BCCI had any ownership or loan-type programs. Both of you had loans from BCCI to buy shares.

Did any of the other stockholders do a similar thing? Mr. Altman answered we don't have access to inform CCAH and other financial institutions, including BCCI. That was in 1990. Of course, the letter had been written earlier. Didn't any bells go off at that time? Didn't you think it unusual that—did you ask any questions of the

shareholders, where their financing came from?

Mr. Altman.

Mr. Altman. Yes, I think I addressed some of this earlier this afternoon. I think you are talking about the dialog with Mr. Ryback and we did look into those matters and we provided the information that we had obtained.

I also said that when questions were raised during the 1989-1990 time period and we were doing our own inquiry to determine whether those allegations were well-founded, that we talked among other things, counsel did, to Price Waterhouse and apparently Price Waterhouse found nothing in the files that indicated the original acquisition was financed by BCCI. And BCCI told us it did not finance the original acquisition. And we talked to shareholders directly and they told us the same thing.

The answer is we did look into the matter and the information

that we obtained we provided to the Federal Reserve.

Mr. Vento. Thank you, Mr. Chairman.

My time has expired.

The CHAIRMAN. Mr. Ridge.

Mr. RIDGE. Thank you, Mr. Chairman.

I want to thank our witnesses for appearing before the committee today. I know it has been a very difficult time for you, particularly Mr. Clifford, given a lifetime of public service to be on this side of a standing House committee discussing these kinds of things and I think you have done it elegantly and thoughtfully, and I thank you and Mr. Altman for being here.

As we try to sift through this 13-year relationship it is obviously very troubling to all of us that men of your talent, perception, intuition, and many other qualities and exemplary qualities and characteristics that you have shown professionally would not or could not have detected an influence, be it directly or indirectly,

subtle or perhaps not so subtle, control from BCCI.

Let me lay out why it is so troubling.

We start back, I guess, in 1978 or 1979 with a BCCI interest in Financial General. We are going way back. And I have before me, and if need be will show you, but for point of reference a BCCI memo that refers to that transaction, and I must tell you, Mr. Clifford, it mentions your name and says, "accordingly I met Mr. Clark Clifford and explained to him our strategy, and that is the involvement in the Financial General transaction". It also identifies the names of potential shareholders who are going to own substantial shares of Financial General stock.

And Sheik Kamal Adham is one; Mr. Fulaij is another, and it says we want two other names immediately, and I would suspect that if I took a look at the shareholders on the American Commerce holdings companies would probably find two more individuals. So back in 1978 or 1979 BCCI is talking to your law firm, not only about itself as an entity, but principals who may act as surrogates for BCCI and who later on become substantial shareholders in the corporation CCAH.

So right away I see as an observer at this point not a red flag, but BCCI certainly very much involved in this transaction; you are involved with them and principals later on that were involved in

really a shell corporation.

If you could pierce this corporate veil of CCAH, you end up at

BCCI. That is in 1978.

We then had relationships back and forth and you are talking about they are a communication conduit. Once the 1982 transaction is arranged, 50 or 60 percent of the shareholders are involved in—want you as a corporate entity to contact them through BCCI, and you do that. That is a responsibility you have to your shareholders. You meet that responsibility. You meet it through memos, through meetings.

You mentioned control. There is a control, your responsibilities to shareholders. Shareholders, most of them, are asking you to deal with their financial consultant, their advisor, BCCI, so you have to do that and you have a responsibility, I think, to respond to concerns, so there is that nexus, how much influence do we have at

that juncture.

Then we start seeing in later transactions and memos a concern, it seems to me, manifested in these memos on the part of your-selves professionally not to disclose to the Fed the relationship be-

tween BCCI and CCAH. That is where we first get into some real concerns.

I want to refer to—I don't know how you have been able to prepare for this with all the memos you have had to go through—refer to the May 8, 1986, letter, Mr. Altman. Again, it is your letter to Mr. Naqvi, but it refers to a memorandum and the memorandum refers to a concern.

First of all, you set out the issue. You have a summary of a discussion. In that discussion, in the memo that you are forwarding, the proposed structure may focus unwelcome attention on the relationship between CCAH and BCCI and raise questions as to whether BCCI has acquired control of NBG.

In response to an earlier question from a colleague, you said, Mr. Altman, yes, you wrote the letter. The memo was written by another law firm, if I understand correctly.

Mr. ALTMAN. That is correct.

Mr. Ridge. What I need to know is whether or not you shared the same opinion of this law firm of the need "to avoid unwelcome attention on the relationship between CCAH and BCCI"?

If you didn't think there was a need to avoid that unwelcome at-

tention, if you thought why it was not addressed in your letter.

Finally, what, if you would conclude, because you mentioned it was a very complicated transaction, what the unwelcomed attention might give rise to—what was the relationship that caused either you or the author of the memo the concern?

Mr. Altman. The memorandum relates to the acquisition of the

National Bank of Georgia.

When that transaction came into view, we went to expert counsel, Milbank, Tweed, which represents some of the major banks in this country and the memorandum makes clear that we had gone to them—it stated expressly that on the second page—to be sure that this transaction was done lawfully, that we don't violate any of the Federal statutes, any of the regulations.

That is the purpose of it.

The language that they use with reference to BCCI, you will note, does not relate to this matter.

It doesn't relate to secret ownership of First American.

What it relates to is the stakeout guidelines and whether, as they say, an argument could be made that CCAH and BCCI are acting together, and they go on and say "although not necessarily a serious problem.'

Now, I might not have used that language, but the language does

not deal with this basic issue.

Indeed, the language talks about control over NBG and the reason for that is, as I tried to explain earlier, when the stakeout guidelines were promulgated, they were in response to the issue about expanding through these interstate compacts and obtaining control over an institution before the transaction had been-

Mr. Ridge. I don't mean to interrupt you, but you have patiently answered this question a couple of times before and perhaps I inartfully asked the question, so I am going to interrupt and ask with an understanding that it pertains to a different kind of transaction. I understand it relates to a specific piece of State legislation and

it refers to a transaction that First American was not involved in.

But it speaks to a relationship between two corporate entities that also had a relationship to another bank; that is, First America.

It also speaks to a relationship that goes back to the principals that I mentioned that were named in the BCCI memo when there was discussion of taking over Financial General, to the principals now involved in CCAH.

From your professional judgment, I want to know what was the relationship, the relationship between those two entities that gave cause to your concern that they would be identified perhaps one as being just a corporate shell for the other or being—principals being involved in the operation of either.

What was your concern?

Mr. Altman. That the relationship that was being discussed is the relationship in this particular transaction.

That is the relationship issue.

Now, I am not an expert in this field. That is why we went to outside counsel, because we wanted to be sure, as the memo makes clear, that we don't violate any law or regulation.

It is my understanding that the same issue would exist—just to make sure that I make this point—whether it was First American and Citibank or First American and BCCI, or First American and any other institution.

In the context of the stakeout guidelines that is what this deals

with.

That is my understanding of it.

In terms of the degree of concern, the memo indicates it is not a serious issue.

You could ask the attorney who prepared it, but—I am sorry.

Mr. Ridge. I interrupted you——

The CHAIRMAN. The time of the gentleman has expired.

Mr. RIDGE. I thank the gentleman.

The Chairman. Mr. Barnard, I believe you desire to yield to Mr. Schumer.

Mr. Barnard. Mr. Chairman, Mr. Schumer has an important meeting at 4:15 and I have agreed to swap my position with him. The Chairman. Mr. Schumer.

Mr. Schumer. I thank you both, Mr. Chairman and my friend

and colleague from Georgia.

The first thing I would say, particularly directed to you, Mr. Clifford, is this is the first time we have met and I can now see why you were so persuasive to Presidents and financial moguls and everybody else, because your presentation was made with intelligence and elegance and was to the point.

After hearing your presentation, I guess I could say to you that

my heart wants to believe you. My head says no.

There is just too much, there is just too great a nexus between BCCI and First American to believe that—I mean you want to call it one type of control versus another type of control—to believe that the two aren't inextricably linked, and anyone who wanted to see it would see it.

The thing I find puzzling about your presentation here is it seems to me backward.

Your strong suit is not that you didn't know that BCCI controlled this institution. Your strong suit is whoever controlled it that First American didn't do anything wrong that has been found

by anybody.

I am puzzled by why you are hanging your hat on something that seems so implausible, and that is that BCCI and First American were separate institutions protected by you, even though you had loans from BCCI, when your firm represented BCCI, the proxies came through BCCI.

Everywhere you look you can't separate the two.

I just find it awfully hard to accept that.

I would like to—I have come across a separate document which makes me even more troubled.

It is a document that Mr. Altman wrote to Mr. Abedi.

I would like to ask my staff to give it to him. It is dated July 10, 1985.

What it is, it is a letter from Altman to Abedi, enclosing articles. It says "In view of our prior discussions, I thought you would be interested in the enclosed article. I thought our meeting in London was productive. I look forward to seeing you at the end of July.

"Attached are several newspaper articles talking about stock

values of other banks in the Washington area."

It seems to me you knew that BCCI was an acquisitive bank. It wanted to take over other banks in the Washington area and throughout.

You advised them about those.

You knew that in 1978, the Fed, Federal District Court found BCCI closely linked with the attempted acquisition of First Ameri-

can's predecessor, Financial General Bankshares.

You knew that Bank of America had documents showing the relationship between BCCI and the four investors attempting to acquire FGB involved substantial loans and that BCCI had stock ownership and here is a letter, and you are telling Mr. Abedi not as advisor to other shareholders, but as chairman of the BCCI Bank, here are some other banks in the Washington area, here is their stock values, they might merge, this person is being brought in, and it doesn't dawn on you that BCCI might—they were so eager to get hold of a Washington bank and here they had Mr. Abedi who is not only head of the bank, but somehow advisor to these shareholders and these shareholders are very close with another, it didn't dawn on you that maybe BCCI wanted to control First American?

That is what is so puzzling about all of this.

Everywhere you look, BCCI would have loved to own First American.

BCCI had all sorts of links with First American through you and

others, and yet, we didn't know anything.

I would just like you to comment on this letter and what is another explanation of it and why it doesn't just lead to the almost inexorable conclusion that if BCCI could control First American, it would and, therefore, since they had all the means to do it, they were

Mr. Altman. I would be happy to respond, Mr. Schumer.

Mr. Schumer. Thank you.

Mr. Altman. The letter dated July 10, 1985, which I have not previously reviewed, encloses a couple of articles relating to banking transactions that were taking place in the First American markets.

Now, keep in mind that it was our understanding, we had these Middle East investors who owned First American. They had invested hundreds of millions of dollars into this property. These were rulers and people of stature. They had enormous numbers of investments. They were uninvolved—that was the agreement from the beginning. It was going to be American-run—and they had asked that we keep Mr. Abedi informed, and he would follow the investment and be able to advise them as to this investment; and he would serve as our communications link with them.

This was something, as I have said earlier, well known. We had disclosed it publicly and in regulatory proceedings. When we send information of this kind to Mr. Abedi, we are sending it to him apparently, although I don't recall what was in my mind at the time, because it related to what would be the value of this major investment of his clients' interest.

An investment advisor only remains an investment advisor if he puts his clients into good investments and they do pretty well. This investment had done spectacularly well, his clients had earned substantial profits, and there was a good deal of activity in the market.

Mr. Schumer. Did it ever occur to you that BCCI might want to control First American?

Mr. Altman. Well, it is hard for me to say what was in Mr. Abedi's mind.

Mr. Schumer. I am asking what was in your mind.

Mr. Altman. What we can say to you is that BCCI, whatever it may have done with stock arrangements, with secret agreements with shareholders, we haven't seen the evidence; we don't know the facts. We know what we read.

We can state BCCI did not control First American. From a common sense standpoint, the two companies operated in totally dissimilar ways; we had different procedures, different policies, different customers, different corporate strategies. We were a totally different kind of institution, so the notion of BCCI controlling First American just was not there.

Mr. CLIFFORD. Mr. Chairman, might I add just a part to that? I know of Mr. Schumer's interest in this.

I have read with great interest the report that you got out. I found it exceedingly valuable. You used the word that you were "mystified" by this. Let me suggest to you, I am mystified by the actions of BCCI.

What did BCCI have in mind? Why did they accumulate the stock that they did in secret, and possibly illegally? What were they going to do with it? I don't know. I am mystified by that. Because here they accumulate stock in their vault, and the concern is that the first time anybody learns about it, they are in the deepest trouble they have ever been in. I don't understand what they were up to.

They started something—they never finished the closure of it. If you accumulate stock, you can't use it, you go over the 25 percent figure.

What I am saying to you, you are mystified, Mr. Schumer; I am

also mystified.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Roth.

Mr. Roth. Mr. Clifford, you mentioned that it is difficult to set the record straight at times. Why don't we try to set the record

straight.

You say you are mystified. The facts are that you reported regularly to BCCI on the operation of your bank. You mentioned you went to London 26 times. Mr. Altman reported as well. You provided them with financial statements. You even cleared job candidates with BCCI.

You went to BCCI conferences. You even accepted BCCI payments for your legal fees to your own bank. It is interesting that they didn't come to you, but you went to them in London.

So if you weren't reporting to the real owners, what did you

think you were doing?

Mr. CLIFFORD. We knew exactly what we were doing. We were doing what we were told to do, because these men were the representatives of the owners of the property, and it was our duty, as the managers of the property in the country, to report to these men, because almost every month they go to the Middle East and report to the owners.

The shareholders are our owners. They are our bosses, and we need to report to them as any corporate officers need to report to

their shareholders.

We were told to do it by means of reporting through these two men. We followed that.

Mr. Roth. Of course you did realize that this was BCCI?

Mr. CLIFFORD. You seem to be assuming that we knew that BCCI

had acquired stock in First American. We did not know that.

Mr. Roth. Let me ask you this question, because you said you were mystified. Why did BCCI hire Ernst & Whinney in August 1982 to audit the books of your bank, and why did they report directly to BCCI? You must have known that, unless they slipped in in the dead of night and slipped out again.

Mr. CLIFFORD. I am not aware of that.

Mr. Altman. I recently saw documents regarding Ernst & Whinney. They did communicate with BCCI about the auditing of the top holding company. I don't find that particularly startling. We had understood that BCCI was following this investment for the shareholders, and so for them to be in contact with the auditors is perhaps reasonable.

This is not a matter—

Mr. Roth. I find that somewhat disingenuous, to be kind.

Like Inspector Clouseau of the movies, you suspected BCCI was involved, and you asked a lot of questions. Did you ever think of alerting the Federal regulators of your suspicions? They took your word and relied on your reputation and Mr. Clark Clifford's—did you ever tip them off to your suspicions?

Mr. CLIFFORD. No, you haven't stated that accurately.

The Federal regulators made their own investigation. It was a worldwide investigation, and they used the State Department and the Commerce Department and the CIA and the FBI, and they got

all the information that they could possibly get.

What we did was, we said to them, in effect, if you on your own have investigated these individuals and you think they are qualified to own this bank, then we will represent to you that we will see that this bank is operated from within the United States and is operated honestly with a group of top Americans; and we will vouch for the propriety of the operation of the bank.

That is what took place.

Mr. Roth. Mr. Clifford, let me ask my own questions. You restated the question.

In your statement this morning, or in your statement you gave us, either you or Mr. Altman said that you were concerned and suspected BCCI involvement, and you asked a lot of questions. My question is, did you think or did you alert the Federal regulators about your suspicions? After all, they were relying on you.

Mr. ALTMAN. Mr. Roth, there were various reports, most of which were reports known to the Federal Reserve. A lot of this was in the newspaper. This was no mystery. The fact of the Awan tape and some of the prominent news coverage—this was known equally to the Federal Reserve.

The fact is, we didn't have anything to report. Everywhere we went—whether it was pursuing the information Mr. Awan may have, whether it was talking to the senior management of the company, whether it was discussions with the auditors, whether it was discussions with the shareholders—we didn't find anything to support these allegations.

Now, we did hear reports about loans to the shareholders from BCCI. It was not confirmed. We passed that information on to the Federal Reserve in the spring of 1990. We had no information to support these allegations, and so there was nothing, in effect—

Mr. Roth. You didn't go to the Federal regulators and warn them?

Mr. Altman. That is not a fair characterization, if I may say so. We did talk to the Federal Reserve. We did provide them with the information that we had gathered. When we learned that there were loans to these shareholders, even unconfirmed reports, we presented that information to Federal regulators.

Mr. Roth. You never reported your own loans to the regulators? Mr. Altman. In response to Mr. Ryback's letter, we did not respond by supplying him information about the loans we had ob-

spond by supplying him information about the loans we had obtained from BCCI, because it was not responsive to his inquiry. We did report the fact that we had purchased shares in a timely fashion on the forms that the Federal Reserve issues every year, that we owned the stock.

This did not relate to financing. That is not called for by those forms.

Mr. Roth. Mr. Chairman, if I may conclude by saying, I thank you for holding these hearings. I have been on this committee, while we investigated the S&L scam day after day. We have this testimony, and people just don't know what happened; they are mystified.

I am not mystified. I think the insiders in this country know the system and are milking the system, and people are going to get as upset with our government as they did in the Soviet Union. They are going to come and clean up Washington one of these days.

The CHAIRMAN. We don't have Bob Strauss as ambassador to us,

the Russians do.

Mr. Barnard.

Mr. BARNARD. Where is Mr. Strauss from, Mr. Chairman?

The CHAIRMAN. Well, you know he is a past Chairman of the Democratic National Committee. What else did you expect those Russians to do but revolt?

Mr. BARNARD. Mr. Clifford, when did you and Mr. Altman take over the management of the First American?

Mr. Clifford. May 1982.

Mr. Barnard. Was it First American then or was it Financial General?

Mr. CLIFFORD. After that time we renamed it First America, to

the best of my recollection.

Mr. Barnard. What is your remembrance of the presentation that you and Mr. Altman made before Mr. Mannion and others of the Federal Reserve Bank when this application was being considered? What was actually your role in that hearing?

Mr. CLIFFORD. The hearing took place in 1981, and we represented the investors. It was the investors who had filed the application asking the Federal Reserve for consent to acquire the old Financial

General. And four of the investors came over-

Mr. Barnard. And you introduced them to the committee?

Mr. Clifford. We introduced them to the committee, and each of them testified before the committee.

Mr. Barnard. One of the strange things about the report that came out of the Fed is so much of it was excised. Do you have any reason to know why so many important parts of that testimony before the Federal Reserve, which was furnished to Mr. Rosenthal's committee in 1982, why that was excised from the record?

Mr. CLIFFORD. I didn't know that any of it was excised. I had a full transcript of that whole hearing without a word excised.

Maybe Mr. Altman knows.

Mr. Barnard. I wish you would look at that because so much of the testimony that was offered before Mr. Mannion, there are large gaps that did not appear in the record, and it is strange to me why that would be so. And particularly because of the fact that BCCI was brought up so much during that particular hearing. Do you recall that, Mr. Altman?

Mr. Altman. As far as things being deleted from the record, I would say two things. One, I am sure we would be happy to provide the committee with the full transcript, and the only thing that I could speculate might have been deleted would be personal financial information relating to individuals. Beyond that, I don't know. I haven't seen your copy.

Mr. Barnard. That could be. It was strange to me this testimony

had been excised.

Mr. CLIFFORD. We will have a copy of the full transcript in your office very promptly. It is a public document.

Mr. BARNARD. Thank you, Mr. Clifford.

Do you recall that during that hearing many, many times the Federal Reserve brought up the possibility of the control by the BCCI? Do you remember that?

Mr. CLIFFORD. Yes. I believe that it came up from time to time. Mr. BARNARD. It did come up, and this was in 1981, and there were serious questions, and I think that the Fed suspicioned greatly that they were behind the transaction, and they couldn't pin it down, and the application was approved that BCCI become a holding company to acquire Financial General.

Mr. CLIFFORD. I did not get the impression during the hearing that they were concerned particularly with BCCI. They wondered

whether or not a foreign bank was in the picture.

Mr. Barnard. It says here that, for example, in one question by Mr. Bostion, what precisely is their function, if any, if this proposal had occurred at the present time. You said, none. There is no function of any kind of the part of the BCCI.

I think when the question was asked having to do with what might occur in the future, I think someone may have given the answer that would depend upon the judgment of Financial General

in the future.

I know of no present relationships. Even back in 1981 there was strong suspicion that the BCCI had something to do in this involvement. But I want to move on.

Mr. Altman, in 1981, you wrote Mr. Mannion a letter outlining the financial arrangements of the acquisition of Financial General, and it seems like that there was a consortium of banks putting together to finance this particular transaction. And the letterhead which outlined the details of the credit was the International Development Bank of Investment. Anyway, this is a consortium, an agreement to loan \$50 million. Can you tell me what banks were involved in that consortium?

Mr. Altman. It is a little hard for me to recall specifically. I believe there was one of the major banks in France, Banc Nationale de Paris, a bank from Singapore. I believe there was a bank from

Tennessee.

Mr. Barnard. Not the Butcher Banks, I hope?

Mr. Altman. No, sir. There was a group, I think, of 10 banks in all, that joined that syndicate and that loan has been gradually paid down. I think there is one payment remaining of \$10 million.

Mr. BARNARD. Was BCCI part of that consortium?

Mr. ALTMAN. No, sir.

Mr. BARNARD. No further questions.
The CHAIRMAN. Would you yield to me—because you did bring out something here, and notwithstanding Mr. Clifford's first testimony in which he recited the fact that the Bank Commissioner of New York had been very supportive of BCCI, and the question that our late colleague, Chairman Ben Rosenthal—I might say that that subcommittee is not a subcommittee of this committee. It is a subcommittee of Government Operations, and Chairman Barnard has been very modest and not admitted that he is now the chairman of

I find it interesting that Mr. Clifford should provide to you the record of the proceedings of that subcommittee.

But in any event, I think at this point it would be proper to place in the record-Mr. Barnard, Ben Rosenthal knew what he was doing. He wasn't asking questions of his own New York regulator because he was out on a vague trail.

Mr. Barnard. If I might take one second to say that I think that this hearing record of the Commerce Consumer and Monetary Affairs Subcommittee of which Mr. Rosenthal was chairman at that

time should be included in this record.

[The information referred to can be found in the appendix.]

Mr. Barnard. There was a letter that Mr. Muckinfuss, who is a Senior Deputy Comptroller for Policy of the Comptroller of the Currency, wrote to the Board of Governors in connection with this March 12, 1981. Just reading the record, he says, in this connection we note that in the October 1978, application a relationship between Investors Group and the Bank of Credit and Commerce International was outlined, and so forth. I bring up again the fact that as far as Congress was concerned there was notice that BCCI somehow or other was involved in all this transaction.

The Chairman. You are correct, and I will join you in a unani-

mous consent request that the pertinent sections that you may select for the record be placed in the transcript of these proceed-

ings at this point.

The information referred to can be found in the appendix.]

The CHAIRMAN. What I want to bring out is an internal BCCI document in which they spell out very clearly their intentions and plans for the United States, and I believe there is no question that BCCI from the beginning had very definite and most ambitious plans for the United States generally, and specifically First American. At least First American of New York.

One of the letters included in this documentation of the internal BCCI documents is to a Mr. Naqvi from Aijaz Afridi. Afridi was an employee and an official of the New York bank, am I not correct,

Mr. Altman?

Mr. Altman. Yes. Mr. Afridi has not been there for several years, but he was at one time a senior officer of First American Bank of New York.

The Chairman. This letter is dated July 25, 1983, addressed to

Mr. Naqvi.

"This needs a lot of improvement, but please glance through and

advise if all points are covered.

"Copies of the check list and points for consideration for the existing branches of FAB-NY and branches of other banks we require are also enclosed for your records.

"A copy of each has been provided for Mr. Shoset and Mr.

Khusro, who also have kept informed."

In his scheme here for the plans for the United States by BCCI, it says, "informed observers of the U.S. banking scene are of the opinion that deregulation in current banking law and practice will become a reality in the very near future. The process has already started and the outcome can be predicted with a high degree of accuracy. It is likely reciprocity amongst different States will be common in the 1980's, and, therefore, banks will open their doors (full-fledged service branches) all over the United States of America.

"We should, therefore, cash the advantage of an interstate bank holding company. But, as ours will be a new venture in New York, we have to proceed with a high degree of caution. And yet, at the same time, find ways and means for growth in a highly competitive market. Our vision entails and encompasses a full-fledged bank providing a comprehensive package of financial service and not that of a bank circumscribed by a narrow product range. We have to have an overall perspective of the setup, management, and of the limits that can be sought and which must be achieved over time."

Then it says, "our people would be a partner and participate,

subject to and subject of this evolution.

"Their role will be creating and supporting business opportunities unobtrusively, imperceptibly, gaining trust and confidence—injecting real management power.

"The important question of cast:

"Everyone has his own cast.

"Our role is to rupture the individual casts to allow flow and nerger.

"To do this, we ourselves should not have any cast. We should be

open infinitely.

"BCCI's cast is an open cast, fluid and flowing, infinite—dynamic vision.

"Large money market center in New York. But before we generate resources and have full acceptability, we should concentrate on nonfunding our business, such as leasing, factoring, insurance, bills

and clearing.

"Another important and lucrative area for introducing the name of FAB-NY as well as for profitability would be foreign exchange, metal and commodity trading for customers. Further down—in order to achieve the growth and profitability we are projecting for FAB-NY, these are covered in our write-up on the type of banking business we adopt and the phases. Have to be finalized after discussing with other executives. Project the image of FAB-NY domestic as well as international. The appearance of the logo, and so forth. Introduce ABNI BCCI which already enjoys great acceptability. Including Latin American countries so as to get profitable business and interest free low rate government deposits, and so forth."

I think that this document is very clear, very revealing as to what the schematic plans were from the very beginning of BCCI. I ask unanimous consent to put this in the record including globe charts. In 1986, a memorandum was written to William M. Duncan from Aijaz Afridi, subject BCCI group's annual conference—Luxem-

bourg.

"This memo seeks to summarize tangible results of my recent visit to Luxembourg where I attended the subject conference to-

gether with Bob Altman as guests.

"BCCI-Amsterdam's account shall be established at FAB-NY next week and they shall be routing all of their U.S. business through us.

"BCCI-Paris shall most probably be opening their account.

"BCCI-Misr, affiliate of BCCI, shall be closing their account at Security Pacific. They have been maintaining an active account at FAB-NY since 1984. They have now agreed to keep \$400,000 in av-

erage compensating balances. As FAB-NY requires more understanding of their operations and special needs, our officers may have to visit Egypt for discussion purposes, after which it is hoped that their free balances will be further increased.

"National Bank of Oman, 29 percent BCCI ownership, shall start placing funds up to \$150 million with FAB-NY which we shall place with BCC, keeping a cushion of one-sixteenth to one-eighth. I have not agreed to this arrangement as we have to carefully examine the ramifications.

"Banque de Commerce et de Placements S.A., Geneva, 20 percent BCCI, have increased their business activity by closing their account at First Chicago.

"BCCI will open a branch in Australia on June 1 and it has been

agreed that their account will also be opened with us.

"The overall relationship with the Group was also discussed and Bob Altman made a push to obtain more of their business."

Robert A. Altman, for your information, so I assume that you had seen that memorandum.

[The memorandum referred to can be found in the appendix.]

Mr. Altman. I don't have that in front of me. I think I have seen the second memorandum. Not this lengthy document. To the best of my recollection I have never seen that before.

The CHAIRMAN. What I am showing you here is the basic general business plan BCCI had for First American, at least First American of New York. They were not laid out by either you or Mr. Clifford.

Mr. Altman. Mr. Chairman, as to this second document, this is a memo written by Mr. Afridi to Mr. Duncan. Mr. Afridi was then an officer of First American. He was writing to Mr. Duncan, who was the chief executive officer. He ran First American Bank of New York. He is reporting on a conference that Mr. Afridi attended of BCCI, a conference where he tried to get business of BCCI for the First American Bank of New York. Most of BCCI's business was going to a few of the money center banks like Bank of America, Security Pacific, American Express, Bank of New York and the like, and we were competing for that business.

So as to the second document, what this relates to I believe is an effort by us to compete to try to get some of that business for the

benefit of First American.

The Chairman. I believe these documents will speak for themselves. I will ask unanimous consent to place in the record at this point, minutes of the U.S. marketing meeting held April 24, 1985 in New York.

Again there were about 10 people present and the first three were from First American of New York, Afridi, Mr. Tariq Jamil,

Mr. Khusro Karamat Elley, and so forth.

So I will offer these for the record and only to show that whether or not you thought you all were in control of the destinies, that BCCI from the very beginning had very definite plans, they formulated them, they had their working scheme and they went about carrying it out pretty much. And, of course, they considered First American of New York an integral part of their BCCI operations in the United States.

[The April 24, 1985 minutes referred to can be found in the ap-

pendix.]

Mr. Altman. Mr. Chairman, if I could just state for the record in that regard, I think it is appropriate to note that there have been intensive audits made of all the dealings between First American Bank of New York and BCCI. These were conducted both internally and externally and I can speak quite confidently as to the internal audits, that all of the dealings we had with BCCI were arm's length legitimate transactions and I believe that has been confirmed by the audits by the regulatory authorities.

I cannot comment on these plans that you mention that BCCI

may have had.

The CHAIRMAN. Are you presently a member of the board?

Mr. Altman. No, sir, I have resigned from that board. The Chairman. For how long were you on the board—

Mr. Altman. I don't recall the date I joined but practically from the beginning of the acquisition up until the time we resigned in August of this year.

The CHAIRMAN. Mr. Stearns.

Mr. Stearns. My question is for Mr. Altman. Mr. Altman, the America's Coordinating Committee, wasn't that a committee set up by BCCI to monitor its banking investments, its affiliates in the United States?

Mr. Altman. I am not sure that I can tell you why it was set up. The first I heard of this committee to the best of my recollection was when I got a query from a reporter from the Washington Post in September, I believe it was last year, and at the time I indicated that either Mr. Clifford or I to the best of our recollections had never heard of such. So I can't define for you the purpose.

Mr. Stearns. You have never heard of America's Coordinating

Committee until last year?

Mr. Altman. To the best of my recollection, I had not heard of that committee. I understand that there have been questions about that but I have no recollection of that.

Mr. Stearns. You are saying in public testimony that you never heard of it. We have records on April 24, 1985, that you were in New York City attending a meeting with the America's Coordinat-

ing Committee, is that true?

Mr. Altman. I have no recollection of attending any such meeting. I understand that the government has documents, minutes of that meeting, which do not show me in attendance, and I have no recollection of it.

Mr. STEARNS. I have here a legal bill on that date you yourself

submitted, a bill from your legal firm to BCCI on that event.

Mr. Altman. I don't know what that event——

Mr. Stearns. Do you want to see it?

Mr. ALTMAN. Yes. That would be helpful.

Mr. Stearns. Let me go on. Mr. Altman, do you know who Mr.

Elley is, E-L-L-E-Y?

Mr. Altman. Yes. Do you want me to comment on this document—I see the reference in the bill that I traveled to New York, but as I say, I understand although I don't have access to the documents or have not reviewed them that the documents of that com-

mittee, the minutes which are in the possession of the government indicate I was not in attendance.

I have no recollection of it.

Mr. Stearns. Who is Mr. Elley?

Mr. Altman. Mr. Elley is an officer at First American Bank of New York.

Mr. STEARNS. Didn't you help in that bank's legal set up and know Mr. Elley well? Did you know he was in attendance at the same time you were in New York City at the America's Coordinating Committee? Here is BCCI people coming together to monitor their banking investments in America.

First American Bank of New York is right there. In fact, we have his statement of what he said and you had no idea he was at

that meeting?

Mr. Altman. I can only tell you what I recall. I have no recollection of even hearing of that committee until a reporter had asked me a question about it and I have no recollection of ever hearing from Mr. Elley anything about such a committee. Now in the course of current investigations I have certainly become aware of the existence of the committee and I have become aware that members of First American Bank of New York attended some meetings of that committee.

But I have no personal knowledge of it to the best of my recollection.

Mr. Stearns. So you don't even talk to Mr. Elley? I mean, when he goes there to give a report on First American Bank of New York activities to BCCI's coordinating committee for its investments in America, he gives a presentation, you don't even know about it, and you are in New York City at the same time, is that what you are telling me, that you just did not even connect? I find it hard to believe, and yet you billed BCCI for that trip.

Well, tell me, what were you doing up in New York then?

Mr. Altman. I certainly can't sit here today and recall what I was doing in New York in April 1985. I think you could understand that.

Mr. Stearns. I admit that. But don't you find it unusual that a person from First American Bank of New York is making a report to BCCI on its operations in 1985. Now, this is 6 years ago. This is way back. It would show to this committee member that there was some understanding that BCCI had investments, and indeed, let me read what Mr. Elley said. Quote, "In America, we are sitting on \$7 billion assets, and this is just the beginning."

How do you interpret his statement?

Mr. Altman. I am not sure that I know how to interpret his statement. I think you would have to ask Mr. Elley that. I think I have tried to explain to the committee that to the best of my recollection, I knew nothing about this committee. I have seen, either in newspapers or somewhere, that particular quote, but I don't have firsthand information as to what that committee was doing, and so I can't comment on the propriety of what Mr. Elley did at this time. I don't have that information.

Mr. Stearns. Well, I think it is clear your firm submitted a bill that year for \$325,000 worth of legal fees total. Now, you were doing a lot of legal work up in New York, your name is on that

bill, and there is numerous times you were doing work, so the question is what were you doing up there when your representative from First American Bank is there reporting to this committee what you just agreed is a BCCI association or committee to overlook its investments?

You must have known that.

Mr. Altman. Congressman, I don't know what that committee was doing. I know what I hear about it. I know the reports that I have received in the course of the current investigation, but I understand from the records of the Government that I was not at that meeting. Now, I see from the bill that our law firm submitted that I was in New York, and I was rendering services apparently to BCCI, and those services are described in the document.

They seem to be related to regulatory matters.

Mr. STEARNS. Mr. Altman, let me read from your legal bill that your law firm submitted, quote: "It is for preparation for and attendance at various meetings with senior officers and management of the BCC Group in London."

So your own bill says you were there in New York at that time. The cost is there. This is contrary to what you are just telling this

committee.

Mr. Altman. No, sir. I don't think it is.

Mr. Stearns. It is right here in your legal bill.

Mr. ALTMAN. I think it entirely possible that I could be in New York and I could meet with BCCI officers and not attend this particular meeting and, indeed, be unaware of the meeting.

As I say, I think the actual records of that meeting show that I

was not in attendance.

Mr. Stearns. You were the only one in New York, and this bill

is for the attendance at the BCC Group of London in America.

Let me move on here. Let me ask both of you, how many business executives can get \$10 million nonrecourse loan when you make no salary? In all defense to you, Mr. Clifford, not many Members of Congress or many people in this room could get \$10 million nonrecourse loan, and you are only making \$50,000 a year, and Mr. Altman was making no money and he got \$5 million.

Tell this committee how you got a nonrecourse loan for \$10 mil-

lion if this whole thing is on the up-and-up.

Mr. CLIFFORD. I explained this morning that we were not operating under a salary arrangement with First American. I was holding the top position in the company, one that might have commanded a salary anywhere from \$500,000 to \$1 million a year. It so happens that one of the competing companies in Washington with First American, the man holding the position that I hold, gets \$1,200,000 a year. I was getting \$50,000 a year. I got it for 9 years. So I did not intend to have a job and make money out of the work that I was doing for First American.

What I explained this morning was that we hoped that by building up the assets and building up the stock that I could profit from

the increase in the value of the stock. That was done.

It was done legitimately. It was done with the proper parties knowing about it. We borrowed the money from BCCI because they were in the best position to know the value of the collateral that I was putting up.

Now, the fact was that when I acquired the stock, the stock was acquired at the suggestion of and with the approval of the shareholders. They wanted a closer bond with Mr. Altman and me. We had produced exceptional results, and they wanted it continued.

So everyone was interested in our having this closer bond. It

worked out well, and we felt—

Mr. Stearns. May I retain my time, Mr. Clifford. I am just get-

ting ready to close, and I see the chairman.

Mr. Altman, let me ask, what was your personal relationship with Agha Hassan—I mean, Agha Hassan Abedi, your personal relationship, besides the professional side, what was your personal relationship?

Mr. Altman. Well, it was primarily a professional relationship. Now, I had known him for a number of years, and over that period of time there is something of a friendship that develops, but we were not people to socialize together. It was almost entirely busi-

ness.

Mr. STEARNS. Well, in all deference to you, it appears from this article that he did socialize. You were good friends. In fact, he gave your wife a brand new Jaguar free of charge and it goes on to say that he would have given a Mercedes or a Ferrari or anything else, so my point is your personal relationship went beyond what you just indicated.

Mr. Altman. No. If you will permit me, my relationship was as I have described it. What you were referring to is the fact that when I got married, Mr. Abedi was invited to the wedding along with a number of other people, including other clients. He was a client of ours. It is true he gave my wife a very generous gift. That is the kind of thing that is done in the circles in which he operated in the Middle East, but as far as a personal relationship, our dealings were almost entirely business.

Mr. Stearns. I would just like to conclude, Mr. Chairman, for all small businessmen everywhere who have to sign those notes personally and guaranteed, what these two gentlemen got was a

sweetheart deal.

The Chairman. Mr. Kanjorski.

Mr. Kanjorski. Thank you very much, Mr. Chairman.

Mr. Clifford, I am a latecomer to the Congress, and I am eminently familiar with your career. I share the heartache that you must have that such a great career at the end to face a committee like this, and I respect the fact that you didn't assert your fifth amendment rights, you are here. Anything I say should not disparage your past service to this country or to the business world as a whole.

Mr. Altman, I am not familiar with you, but your wife has been a hero of my child all the way through, so I have to tell you that anything I say with regard to you certainly isn't intended to de-

stroy that great Wonderwoman character.

I share my colleagues' difficulty in believing this desire to blame this on your parts. Having been a small town lawyer in the past, I have been acutely aware of conflict of interest with clients, when you can get into business involvement with clients, and what lines you have to draw. It would seem from the legal profession if this is ethical I think we have to examine the ethics of the lawyers.

It would seem to me you are saying on the one hand that you represented BCCI or had at certain times, maybe the trip to New York was representing them and the trip to Luxembourg conference to report was as a lawyer, but then also you are free to do and associate in other business activities that were business activities you obviously discovered as lawyers.

You weren't aware of any from any of the testimony that I have heard today that First American would be a great venture to get into except in your role and capacity as an attorney representing BCCI, and what you would have us believe is that you took that information and transferred it to personal involvement where you

succeeded in making a great deal of money.

I don't know whether that is ethical or not ethical. From my area of Pennsylvania, we may consider that to be unethical conduct. But you did something more than that. You went out and got an uncollateralized loan from a foreign bank. You couldn't have done that in any bank in America because you couldn't pledge bank securities at 100 percent, so you had to know that, that you were now using your professional relationship with this client, albeit a foreign client and not subject to all the American rules of lending.

You took this money and then you invested it in an institution you thought would do rather well and kept on putting hats of different colors and apparently closing your ears at the same time so that conflicts would become apparent to anyone, even beside world class lawyers, just anybody, the red flag would have gone off, and you did this all the way through the middle of this year, until it finally dawned on you that maybe something was wrong here.

I find that incredulous. I find it embarrassing for the country, and I just wonder whether or not, if you had been suspicious at any time and you had to hire an accounting firm and you knew that accounting firm held a contract with BCCI for a major part of its fee generation, if you knew the partners of the accounting firm held stock in a major investment of BCCI partners shareholders, and you were to examine—and you had the question come up in your mind as to whether or not there was a relationship here, and you wanted to check out the ownership of this stock, who owned BCCI, would you have retained that type of an accounting firm and had any, any reliability on the reports you got back as executives?

Is that what you would do?

Mr. CLIFFORD. I am not following the question.

Mr. Kanjorski. Well, if the accounting firm, Mr. Clifford, were going to have the same type of relationship that you had with BCCI in a professional capacity, in borrowing money from them, in doing all the things that you did, and you wanted to check out the issue of whether or not there was some conflict of interest of ownership of stock by the stockholders in BCCI, would you have retained an accounting firm, knowing what you know about your relationship with BCCI if that same relationship existed with the accounting firm?

Mr. CLIFFORD. I don't know how to answer the question. It is a hypothetical question. It has elements in it that I am not understanding. But I can tell you I am absolutely clear in my mind that

I did not engage in any unethical conduct in making a loan from BCCI.

It was appropriate for me to do so under the circumstances. The purchase of the stock was perfectly legal. It was in the company of which I was serving as chairman. BCCI was familiar with the value of the stock. I was—

Mr. Kanjorski. Let me just ask one other question. I hear you mention the fact that you cut your fee down, your salary down because you anticipated making a huge capital gains on the stock.

Did you record-

Mr. CLIFFORD. I didn't say that. I said that I took what I considered modest compensation in the hope that later on I would be able to buy some stock in my own company and then as a result of my efforts build up the value of this stock and make a profit.

That is what I said.

Mr. Kanjorski. And you did that, sir?

Mr. CLIFFORD. And that is what occurred.

Mr. Kanjorski. You didn't consider that that profit made that would be paid as capital gains was, in fact, salary or income that should have been paid in income as opposed to capital gains?

Mr. CLIFFORD. There wasn't any difference between them. At the time that we made the sale of the stock, the capital gains and the

tax on ordinary income was exactly the same.

Mr. Kanjorski. Did you know that when you bought it, sir?

Did you have clairvoyance to see that the tax schedule would be so changed?

Mr. CLIFFORD. Well, I don't know that it occurred to me at the time.

Mr. Kanjorski. So that if there hadn't been a Tax Reform Act of 1986, what you would have sheltered is extreme income that would have been taxable at a much higher rate at the time you purchased the stock, that was the facts, than, in fact, you would have paid if you had had a capital gain?

Mr. CLIFFORD. Well, I didn't have the prescience, I am sure, to know what was going on at the time or what was likely to happen in the future. It came up at a time in 1986 when there was an opportunity because some of the offering had not been subscribed to.

We had to take advantage of the opportunity at that time. We might not have gotten any had we waited, but the opportunity presented itself, we bought it, and we bought it at the same price as the other shareholders.

Mr. Kanjorski. Do you think anything now that has been exposed that there was, in fact, a relationship from BCCI and First American, that there was an intended relationship, in fact, there was a relationship that is now being developed, do you think those are tainted profits?

Mr. Clifford. Do I think they were tainted profits?

Mr. Kanjorski. Yes.

Mr. CLIFFORD. In no way whatsoever. It was a perfectly legitimate business deal. We reported it. We even mentioned it to our law partners that we were buying the stock. We reported it to the Federal Reserve. We reported it to the lawyers.

Mr. Kanjorski. Mr. Clifford, that sounds all well and good, but as a lawyer, if you were using information that you learned as a

lawyer with your relationship with BCCI and you were fiduciaries to the corporation, and that if a conflict had come up, you would have been bound as a lawyer/client in that relationship not to divulge that. Didn't you ever sense that this was so?

Mr. CLIFFORD. We weren't in any preferred position if the stock

was not subscribed to under the bylaws.

Mr. Kanjorski. I am not addressing the stock, Mr. Clifford. I am addressing the information that would be coming to you as a chairman of a corporation and the information would be coming to you as a lawyer involving two different institutions, which at points could be in conflict with each other, in their interests or their dealings.

If you had found out that some of these shareholders were only stooges for BCCI, you found that out, if a lawyer for BCCI, you couldn't have divulged that, confidentiality would have barred you

from it.

Mr. CLIFFORD. If we had found out that these individual share-holders whom we thought we were representing were nominees, we would have resigned immediately from the employ.

Mr. Kanjorski. But you wouldn't have been able to divulge it,

Mr. Clifford.

Mr. Clifford. I don't know about that. I don't know about that.

Mr. Kanjorski. I want to make a point for the record and show

bipartisan-ness, if I may, Mr. Chairman.

Of course, you are an outstanding leader in my party, and the testimony I have heard here all afternoon is so similar to the testimony I heard Neil Bush give on Silverado, I just didn't know. It was OK, there was no conflict of interest if the lenders invested in my company, there would have only been a conflict of interest if I had invested in their company, a legal interpretation I never understood then and still don't.

A disclosure here by two fine members of the bar, one outstanding American that all my colleagues have indicated the same as I, I find it preposterous and incredible, and I am just wondering whether there is something else that drove this. It couldn't have been profits, I don't think.

Were there other public officials in America or other people given preferential loans, was that the intention of BCCI, to subvert

something in this country with this free flow of cash?

Mr. CLIFFORD. I know of no other instance of that kind.

Mr. Kanjorski. Thank you very much.

The CHAIRMAN. Mr. Hancock.

Mr. Hancock. Thank you, Mr. Chairman. It has been a long day.

I am going to try to be real brief.

Mr. Clifford, you testified that when a prospective client comes to you, that you do a pretty intensive background check to look for a possible conflict of interest or whether there might be something derogatory about the people that have been brought to you before you would agree to take them on as a client; is that correct?

Mr. CLIFFORD. Yes. We would like to know about our clients

before we represent them.

Mr. Hancock. Is it true that in 1977 that one Burt Lance brought Agha Hassan Abedi, who is the founder and principal offi-

cer of the BCCI, to you, and that was your firm's first experience with this individual?

Mr. Clifford. Yes. Mr. Lance brought him. He presented him. He brought this man in and said it was a friend of his, and they wanted to come in for a social visit.

Mr. Hancock. Would you say in your opinion Mr. Lance enjoys an impeccable reputation when it comes to the banking industry?

Mr. Clifford. I wouldn't even want to comment in that regard. My opinion wouldn't amount to much, anyway, and I would refrain from answering that.

Mr. HANCOCK. Thank you, sir.

You also testified in your oral testimony that part of the reason that you were able to obtain this \$10 million-plus loan or thereabouts on a nonrecourse basis was because of your age at the time that that loan was made. You were approximately 80 years old, and they felt that it would only be proper to make you that loan without them getting involved in the balance of your estate. Is that your oral testimony this morning?

Mr. Clifford. Yes. That was part of it.

Mr. Hancock. Mr. Altman, did you also get a nonresource loan?

Mr. Altman. Yes. Mr. Clifford and I approached the transaction together, and we went into it on an identical basis. He took twice as much as I, but other than that, they were identical.

Mr. Hancock. Well, I assume that it wasn't because of your age

that you got a nonrecourse loan.

Mr. Altman. My age was not the factor. This was the advice of our counsel.

Mr. HANCOCK. Well, yes. In fact, I have been involved for quite some time with small business, and I have always found that any time you can sign a note that is nonrecourse, that is usually the best way to go. Usually you have to pay much higher interest rates

when that happens.

Another question for both of you, possibly for even the firm. In your careers as advisors to some of the highest elected officials in the United States, also as the senior partners of a well-known law firm, how many times had you been approached with an offer to furnish you stock and all you have to do is sign a note to pay for that stock?

Mr. Clifford. I am not sure I follow the question.

Mr. Hancock. My question is, have you ever, in your careers, been able to buy stock in a corporation merely by signing a note to the people that were wanting to sell you the stock in the first place other than in this situation?

Mr. CLIFFORD. I do not recall any now, but it could have hap-

pened during all these years. Mr. Hancock. OK. Well, it is a little unusual. I think that the banking laws in this country prohibit 100 percent financing and

using of a board member stock as security for a note.

You know, this whole thing kind of reminds me of a story. In fact, I think it is very apropos in this particular situation. It happened down in southwest Missouri. Incidentally, Mr. Clifford, I am from Springfield, MO, it is a great State. But it reminds me of the story several years ago of a couple of hard-working young men down there, and they didn't have anything.

They were on the hillsides of those rock farms down there, but one of them had been up to the mule barn, the stockyards. As he was leaving the mule barn, he was leaving with a real good team of Missouri mules, and his buddy was walking up toward the mule barn, and he said, "Hey, Joe, where did you get those mules?"

Joe says, "Well, I got them up here at the mule barn." He says,

"How did you get them, you haven't got any money?" Joe says, "Well, I signed a note," and his buddy says, "Well, you got them

cheap enough."

That appears to me, with what we are into right here, you got that stock cheap enough because the note didn't mean anything.

Mr. Altman. Mr. Hancock, if I could respond by making two observations: First, in terms of the note meaning anything, the fact is, although it was a nonrecourse obligation, the loan was repaid in full with interest. So the loan meant a great deal.

The second observation I would make is there was a very practical reason that the lawyers who were advising us from New York in structuring this transaction thought that a nonrecourse obliga-

tion was reasonable both for the lender and for us.

In our case, there was a question about the liquidity of the collateral. We were buying stock in this privately-held company, and the collateral that would be used to secure the loan had no ready market.

The buyers would be buyers in the Middle East. It was difficult or uncertain as to the value or the ability we would have to dispose of that stock at any point in time. From the standpoint of BCCI and from the standpoint of the other bank, the Paris bank, when they considered it, the reason each was interested in making a loan and the reason BCCI made the loan on a nonrecourse basis is they were confident that the collateral made the loan well-secured, that the value of the collateral was such that they were not concerned about the risk of loss.

And indeed, as I say, they did not lose any money.

Mr. Намсоск. You ultimately sold your \$15 million investment for \$32 million.

You sold enough of the stock at \$6,800 a share that you were able to pay off the loans; is that correct?

Mr. Clifford. Yes.

Mr. Hancock. Was there any other stockholders offered the opportunity to sell their stock at \$6,800 a share?

Mr. CLIFFORD. I don't know at the time. I know that there was a trade some time before ours.

Mr. Hancock. As was—— Mr. Clifford. The stock had been sold at approximately \$6,100 a

Mr. Hancock. Has there ever been any stock sold other than by you two at \$6,800 a share?

Mr. Clifford. I do not know.

Mr. Hancock. Is it somewhat unusual when an offer has been made to buy X number of shares of stock for the chairman of the board and the president to be able to sell their stock without communicating that offer to the other shareholders? Was that offer of \$6,800 a share communicated to the other shareholders in the organization, or did they not know that it was being sold?

Were they given the opportunity to also sell their stock?

Mr. CLIFFORD. The other shareholders in the organization were all of the Arab shareholders throughout the Persian Gulf. Now, there were trades taking place through there quite often. I remember stock going at one stage for \$4,000 a share, I remember some other trades at \$5,000 a share, so that stock was being traded from time to time at different prices.

Now, the one that meant the most to us is, we had heard about this very large transaction in which the stock brought \$6,100 a share, and that came at a time when the market was very strong.

And we moved after that time to sell some of our stock.

Mr. Hancock. Isn't it somewhat unusual, though, Mr. Clifford, as the chairman of the board of a corporation, and Mr. Altman, the president or the operating officer-

Mr. ALTMAN. President of First American Corp., a holding com-

pany.

Mr. Hancock. Right. Wouldn't it be somewhat unusual to not at least inform somebody? Were you two the only owners with American citizenship of this stock?

Mr. Clifford. Yes, I think probably we were. I think all the rest

of the stock was owned by foreigners.

Mr. Hancock. OK. Recognizing that the banking loans in the United States prohibit this type of financial transaction which was brought up on American bank stocks, you don't think there is any reason why there could be some question?

You mean, you were operating under international law rather

than this country's laws; is that correct?
Mr. CLIFFORD. I did not know what that prohibition is against this loan. There is no prohibition against nonrecourse loans, if that

is what you are saying.

Mr. HANCOCK. No, but there is a prohibition for an officer or a member of the board of directors to be able borrow money against the stock that he is required to own to serve on that board. I am sure that is correct, at least it is in the State of Missouri.

Mr. Altman. These were not qualifying shares, which I think you are referring to for a director to have as a member of a board.

This was stock in the holding company.

Mr. Hancock. I still question the fact that that offer was made at \$6,800 a share that was not relayed and in approximately 13 months enabled you to sign a note, pay a year's interest, pay off the note plus most of the income taxes, and pocket the original amount of money by maintaining the stock that you still owned;

Mr. Clifford. As far as I am concerned, it was a perfectly proper reward for the unusual service that we had rendered in more than doubling the value of the rest of the stock owned by the sharehold-

Mr. Hancock. What is the value of that stock today?

Mr. Clifford. Say it again.

Mr. Hancock. What would be the value of that stock today?

Mr. CLIFFORD. I do not know, because of present conditions, but the bank is a good, sound bank. It is my hope that the stock at some time will begin to return to its former value.

Mr. Hancock. Thank you, Mr. Chairman.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

First of all, I just want to say to Mr. Clifford, as well as to Mr. Altman, that I, for one, very much want to believe the testimony that you have provided the committee today. I know that the reputations that both of you bring, going back to your earlier days, Mr. Altman, as well as Mr. Clifford.

I think, Mr. Clifford, your contributions to this country have been unmatched during your lifetime of service. I know I speak for members of my family when I say that you have truly been an individual that earned our admiration, whether it was the courageous stance that you took against the Vietnam war, or the many other decisions and involvements you have had with our country.

I feel the testimony you have provided today at least offers a plausible rationale for the actions you have taken. I think that it would be a very tough circumstance if there had been an extremely tough prosecutor here today with a panel of jurors and the like.

However, that is not the situation.

I wonder how you feel about these so-called investors whose word you took for granted, given the great body of evidence that has come forward over the course of the last year or so. How do you feel given the fact that these are individuals that have now at least appeared to have been involved in massive fraud, have at least appeared to have been involved in the paying off of terrorists, swindling thousands, if not millions, of depositors around the world. They are responsible for defrauding, I assume, not only a lot of bankers and government regulators, but defrauding you. Whether or not you believed these individuals, in fact, lied to you, or whether you believed these individuals committed fraud in their dealings with you what do you intend to do. What actions do you intend to take against those individuals?

I mean, do you plan a civil case? Your reputations have been put through the mud lately, and whether or not you intend to take any civil action against these individuals for the kinds of actions that

they have taken against you.

Mr. Clifford.

Mr. CLIFFORD. I had not contemplated, Mr. Kennedy, action of that kind. I regret that the reputation that I have spent all these years building up has been affected adversely. I have the feeling that we have been badly used in this situation.

The people who came to us represented themselves as legitimate persons. We accepted that. If all of the stories that we hear prove to be true, and some of them now are in doubt, then we were de-

ceived, and we were deceived from the beginning.

And I would deeply regret that. I have wondered over and over again whether I should have sensed the deception that was taking

place, but there is one factor that hasn't been brought out.

One of the reasons, I believe, that these people came to us originally was because they felt that our standing and our reputation would be an asset to them. So that the fact is when someone says to me, "I really think you should have known," the true fact is, I believe we would have been the last people to know.

They would have done anything other than let us know, because the minute that our clients let us know there was deception, that we had been deceived, they would know that that would be the day that we would leave.

So, it has been a deeply regrettable experience, because I said this morning, looking back on it, with all the experience that I have had, I did not detect any element in it that would have warned me that we were being deceived.

Mr. Kennedy. Thank you.

Mr. Altman, can you respond to the same question, please?

Mr. Altman. I think my response is much along the lines that Mr. Clifford said. The reports that we get are very disturbing; they are embarrassing. They are even shocking.

We have dealt with people in good faith for more than a decade, and it is hard to square the allegations with our dealings with them. They always seemed completely honest and straightforward. There was never anything slippery about it.

It is hard to reconcile our dealings with all that we now hear and read. I do suggest that what we have so far are allegations. We have some of the shareholders who are not being challenged. They are apparently being accepted by the Federal Reserve as legitimate.

Mr. Kennedy. Can I ask you just a brief question? Do you think that the BCCI controlled these individuals, put the money up and essentially used them as a facade for their investments?

Mr. Altman. I am not sure that I know the answer to that, Mr. Kennedy. That certainly is what all of the evidence seems to suggest, and yet, you have people who in their countries are people of

standing, people who are extremely wealthy people-

Mr. Kennedy. Isn't it just in your personal interest to get in there as an individual that has been directly involved on both sides of this equation and make a cut as to whether or not you have been defrauded. You can wait if you want, for the Ts to be crossed and the Is to be dotted in some Federal investigation that will end up taking 10 years, or you can go in and make a decision about whether or not you have been defrauded by these with individuals.

I spent 10 years in business before I got here, and you can tell whether or not somebody is taking you to the cleaners, and you have been taken to the cleaners. Whether they took your money, or whether you made money, or whether the fact that your reputation is being destroyed, it seems to me that an aggressive stance on your part says you believe that you have been hurt and you intend to turn this whole equation around and go after the sons of guns that have done this to you.

This just seems like a human reaction to me, that would be the natural sort of course to follow. I don't understand why you are not fighting back a little bit more against the people that have done this to you.

Mr. Altman. Well, I guess the answer is, we don't have very effective ways of fighting back. These are not people who are here. We can condemn them.

Mr. Kennedy. But you haven't even done that.

Mr. Altman. Well, I suppose, Mr. Kennedy, it is because ultimately we want to know what the full truth is before we reach judgments.

Mr. Kennedy. Thank you, Mr. Chairman.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Riggs.

Mr. RIGGS. Thank you, Mr. Chairman, thank you for your patience, and I thank the witnesses for theirs as well.

I must comment at the outset here that I join my colleagues in being just a tad incredulous at some of the testimony we have heard today. First of all, I want to ask Mr. Clifford, Mr. Clifford, did you ever have reason to question Mr. Altman's judgment in terms of how he fulfilled his duties as president of First American Bank Shares, and particularly as to whether or not he was always forthcoming in his reports to you regarding the day-to-day operations of the bank?

Mr. CLIFFORD. I missed the early part of that.

Mr. Riggs. Did you ever have reason to question Mr. Altman's judgment in his capacity as president of the bank, and specifically as to whether or not he was ever—always, rather—forthcoming in his reports to you regarding the day-to-day operations of the bank?

Mr. CLIFFORD. At no time have I questioned his loyalty or his judgment or his wisdom or the propriety of the matters that he was handling

was handling.
Mr. Riggs. Thank you, sir.

Then you felt that he kept you completely informed?

Mr. CLIFFORD. He kept me informed.

Mr. Riggs. Turning to Mr. Altman. Mr. Altman, I would like to ask you about the report that we have here that says, in July 1978 you, as attorney for BCCI, Mr. Abedi and the investors, now, these are some of the same investors that ultimately came to invest in your parent company, your holding company, effectively blocked opposing counsel in the Financial General Bank Shares suit from gaining possession of certain Bank of America documents relating to BCCI.

What was in those documents?

Mr. Altman. I don't know what was in those documents, but I

would be glad to explain the details of what happened there.

Mr. Riggs. Before you do that, may I just cut in to ask, because I want to get to some other questions as well, but do want to give you the opportunity. I just want you to make sure that this committee has subpoenaed certain records from Bank of America.

Mr. Altman. I don't know, but it wouldn't affect my answer.

Mr. Riggs. OK. Please go ahead, then.

Mr. Altman. The matter involved a discovery dispute in the course of the litigation with Financial General. A deposition had been scheduled with a Bank of America official who, as I recall it, was a member of BCCI's Board.

Mr. Riggs. Do you happen to recall that individual's name, by any chance? Could it have been Mr. Al Rice, does that sound—

Mr. Altman. No, it was not Mr. Rice. This man had been served with his notice of deposition, and he had also been served with a list of the documents which were to be produced at the deposition.

We, as defending counsel in the case, of course, had the right to attend. It was a third-party deposition. And we reviewed the request for documents, and we thought it was a proper request for documents. And so we did not seek any kind of protective order from the court.

When this individual arrived at the deposition, however, what he had done—I believe, he was a board member of BCCI—he had brought with him every document in his files relating to BCCI.

As I recall, there were credit reports. I can't recall the specifics. You are talking 1978. But it was voluminous material. It was not material that had been selected as being responsive to the subpoena. It had just been his entire file.

Mr. Riggs. If I might jump in now, I sense the basis then why you were successful in your motion to prevent the discovery of these random documents.

Mr. Altman. The court ruled for us. All we asked was that someone review those materials and produce that which was relevant.

Mr. Riggs. Are you aware, then, that an attorney, a Mr. Douglas M. Kraus, an attorney for Financial General Bank Shares, shareholders filed an affidavit saying that these documents showed damaging information about BCCI and specifically tended to indicate that all of the investors owned BCCI stock?

Mr. Altman. I recall that Mr. Kraus made some comments based on the documents he had reviewed, and that was released to the newspapers in London. Bank of America disagreed with what Mr. Kraus was saying about its documents, and they issued a press release, I believe we have a copy of it here, in which they corrected what Mr. Kraus was saying, and I would be glad to provide that to the committee.

[The information referred to can be found in the appendix.]

Mr. Riggs. Well, I want to probe here just a minute more before my time expires because I think this goes to the heart of your contention all day long that you had no idea that these individuals, these wealthy investors, were, in fact, surrogates for, as you put it, nominees for BCCI. You are telling me that you were aware that Mr. Kraus made some statements at that point in time that tended to indicate that the investors did own BCCI stock?

Mr. Altman. It was well known at the time that the investors owned stock of BCCI, and indeed when we went through the Federal Reserve proceeding it was also specifically disclosed to the Federal Reserve—the amounts of stock and who owned which stock of BCCI. It was not unknown that there were common share holdings in the two corporations.

As I recall Mr. Kraus' statements, they went to some characterization of the documents which Bank of America said was inaccurate, and they issued a press release to correct what he had said.

rate, and they issued a press release to correct what he had said. Mr. Riggs. Well, if you knew that these individuals owned BCCI stock and that B of A had real concerns regarding improprieties at BCCI, how can you maintain this perfect front of innocence all day today in stating that you had no forewarning, no reason to be leery regarding these individuals and their influence as it extended all the way to First American Bankshares?

Mr. Altman. Bank of America did not have concerns to the best of my knowledge about improprieties in the dealings between BCCI

and its shareholders. I have a copy of the press release. It is dated September 1, 1978, issued by Bank of America, and it says, in effect, and I will quote a couple of sentences, though I would ask that this be made a part of the record—"Thursday's report suggests that the matters contained in Mr. Kraus' statements contributed to the Bank of America's decision to reduce and eventually sell its BCCI shareholdings. As Bank of America has heretofore publicly announced, its reasons for that action are related solely to changes in market conditions, particularly in the Middle East." And it goes on. "It is Bank of America's present opinion that BCCI's loan reserves has been established in accordance with prudent risk management practices." They, in effect, contradict what Mr. Kraus has said.

Now, that is what we knew about it. To the best of my recollection, I didn't actually review the documents, nor did Mr. Kraus, since they were in the possession of Bank of America and the court upheld our motion that was made in that litigation dispute.

Mr. Riggs. Well, I think, in fact, B of A had made the management decision at the most senior levels of the bank to divest of their stock ownership in BCCI because of their concerns regarding a number of irregularities, loose internal controls, questionable loan practices, perhaps outright bribery. I am really interested, and of course time doesn't permit me to probe here enough today, but really interested to know the extent of your knowledge regarding those concerns because whenever I saw a red flag, and I think that would be a red flag. Unfortunately my time has expired. We have some other people who want to ask questions.

Mr. Altman. If I could just answer your question, what we knew was what Bank of America said publicly. What Bank of America said publicly was that their decision to divest their share holdings did not concern or was not as a result of improprieties at BCCI that

they had discovered.

They issued a press release dated January 30, 1978, in which they comment on the reasons for their divestiture and they stated that "Bank of America intends to retain a share holding in BCCI for the foreseeable future and the close cooperation that has developed between the two banks will be maintained."

Bank of America was putting out press releases and whether this

accurately reflected their views—

Mr. Riggs. Large corporations frequently make public statements, and you are very aware of that.

They are quite different than their external management deci-

sions.

I need to know also for the record, if I can establish it here, as to whether or not Mr. Douglas Kraus is now an affiliate with the law firm that is representing you in these proceedings.

Mr. Altman. I believe that he is still with that law firm.

Mr. RIGGS. So he is an associate in the law firm that you have retained to represent you in these proceedings?

Mr. Altman. I have not talked to Mr. Kraus in many years.

The Chairman. The Chair will say as far as Bank of America is concerned, it still continues a rather intensive relationship with BCCI.

It is its international worldwide corresponding bank, and the transactions sometimes amount to \$1 billion a day.

So I don't know where the sensitivity comes about the maldoings of BCCI.

I think the record ought to show that Bank of America hasn't totally subtracted itself from BCCI.

I ask unanimous consent that that document be in the record at this point.

Without objection, so ordered.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. Neal.

Mr. NEAL OF MASSACHUSETTS. Thank you, Mr. Chairman.

I would like to direct my questions and observations to Mr. Clifford.

I think it was Archibald MacLeish that wrote that time is famous for its irony.

To follow the reasoning offered by Mr. Kennedy, I think that the great challenge for you today and in subsequent days is going to be to attempt to convince the public of what you didn't know.

The special irony of that is that we have an individual in our presence today who was so right about the containment policy in the post-World War II period, who had the courage to deliver the bad news to Lyndon Johnson repeatedly and the vision to convince people around him that what was taking place in Vietnam was misguided and at the same time we find an individual who was correct time and time again and who has served the country so well in the face of major adversities would not have been able to see the problems being created by these various partnerships and questionable dealings.

One of the questions I would like to raise for you first and I have grown up as an admirer of yours, do you think in retrospect it was wise for you to have served as chairman of the First American and at the same time have represented them as counsel?

Mr. CLIFFORD. Well, I have thought about the whole situation many times, and I thought about my state of mind when I decided to take on this enterprise.

It is entirely possible that my judgment was not all that I might have hoped that it would be.

I enjoyed the challenge of the First American case.

I am gratified that we made the success of the effort that we did, but I have wondered some since whether it might not have been better if I had just stuck to the law.

Mr. Neal of Massachusetts. As a follow-up question to that, again I think one that focuses again on the issue of judgment here, were you not ever suspicious that BCCI sought out such well-known Americans to represent them, to open doors to them, to give them entry into places they might not ordinarily have been able to make contact?

Wasn't there a moment where you sat down and reflected why these prominent Americans were being recruited?

Mr. CLIFFORD. One wasn't conscious of that at the time. When we took on the employment back in 1978, this had not yet taken place.

Abedi had not yet established his relationship with President Jimmy Carter and with Lord Callahan and with others of that kind so that we had no particular warning at that time.

He came to us originally because of litigation that started.

They needed a lawyer.

We had met them. It seemed logical that they would turn to us at that time, and then it grew, the relationship grew through the years so that I had no warning at any particular time that part of their strategy was to identify themselves with people who had respectable positions and good reputations.

Mr. Neal of Massachusetts. I see that my time has expired.

I want to thank you.

That is only an orange light.

Let me follow up.

Did you ever have any contact with former President Carter?

Mr. CLIFFORD. Yes, I had contact with him.

Mr. Neal of Massachusetts. As it related to any of these matters?

Mr. CLIFFORD. Not in any way.

It just had to do with government. He used me on certain assignments that he had from time to time, some of them domestic, some of them foreign, and I was always available whenever he wished to use me.

Mr. Neal of Massachusetts. Thank you.

Thank you, Mr. Chairman. The CHAIRMAN. Mr. Armey.

Mr. Armey. Thank you, Mr. Chairman.

Mr. Clifford, in your memoirs, you called former President Reagan an "amiable dunce" for not knowing the details about a trillion dollar government.

Now, as chairman of First American Bank, you claim not to know what your bank does, who owns or controls your bank, or that it might have been owned and controlled by drug-running, arms-trading, terrorist-financing thieves.

Under the circumstances, if I were to call you an amiable dunce, it would be considered a compliment, but I don't think that is the

case.

I think what you were, in fact, was a well-connected front man. I think your colleague, Mr. Altman, was the leg man of the operation.

I listened carefully to the details of this, and frankly, I am not surprised that you didn't know anything about the daily operations or the daily relationships of your bank with other banks, foreign or domestic, because it wasn't your job to know that.

It was your job to put together a blue ribbon board and to pro-

vide a front of respectability.

You said you were mystified about why BCCI would want to hold all of this stock, and you are absolutely correct—the discovery of those stockholdings would be considerably revealing of their position, but it was necessary for them to hold the stock in order to control the flows and it is in the flows of the cash, the clandestine money laundering, flows of the cash, domestically and internationally that the exciting part of the story is told.

Mr. Abedi ran the operation from Europe and Mr. Altman ran the traffic between there and here carrying the orders and instructions.

It is all clear to me.

What is not clear to me is how it could escape your notice that when it came time for you to cash in on the deal that prompted both you and Mr. Altman to take, in your case, very nominal pay, Mr. Altman no pay in lieu of the stock option to be exercised later, that you were able to make that transaction with a BCCI loan and then to turn the transaction over for $2\frac{1}{2}$ times its value, \$3,300 more even than what the NCNB offer would have been had it come in for \$1 billion which it wouldn't because NCNB Bank could not discover who owns the bank from the documents you supplied them, but even at that level, a \$3,300 excess of the best offer any-body ever made or hinted they might be willing to make.

After you then made the transaction funded by BCCI, you turned it over to another officer of BCCI with a transaction which he, in

turn, financed with a loan by BCCI.

In all of those transactions, it never occurred to you that the whole kit and caboodle was owned by BCCI and the front men that they had in Europe or in the Middle East as stockholders for their operation?

It is incredible to me that you can claim you don't know. It is

possible you didn't know.

If you didn't know it is because you didn't ask.

It is a shame quite frankly, it is a shame for both you and for the

banking system.

It is a shame for your party and all those that associated with you in this venture and it is a shame that all of those clandestine transactions did in fact take place under this kind of a guise.

I don't have any doubt in my mind that you didn't understand

the daily operations of your enterprise.

I think Mr. Altman probably had some familiarity with them, some greater knowledge than you did, and it is my personal belief that he kept a great many of the shoddy details from your knowledge because you still had throughout all of this a vestige of integrity and honor that he could not trust with the full truth.

Í thank you, Mr. Chairman.

Mr. Altman. Mr. Chairman, if I could just state——The Chairman. The gentleman may have rebuttal.

Mr. Altman. There has been a suggestion made that there were clandestine transactions.

The facts here show that this company, First American, was op-

erated honestly throughout.

The facts here show, and regulatory audits and internal audits confirm, that there were no clandestine misdeeds at First American.

There were arm's-length transactions with BCCI. They have been fully examined by the regulators, they have been fully examined

by the auditing group.

Mr. Clifford this morning quoted from some of the testimony from regulators that was given before some of the other congressional committees and we have provided earlier today that information. But I don't think the comments should go unanswered.

This was a company that was honestly run.

The second point I would make is when the suggestion is made that we were not interested in the truth the fact is we pursued leads, and pursued them aggressively.

Whether we were given accurate information or lied to is a matter that the evidence will ultimately establish, but it isn't for

want of trying that we don't have the full story.

Mr. CLIFFORD. If I might say, Mr. Chairman, when a comment is made like that of the Congressman, hindsight gives one 20-20 vision, and if we had known back then anything at all of what we have learned today, we never would have touched this matter.

If you would stop and think a moment, these people came to us at a time when I had over 50 years of experience practicing law, as

I said before, without a cloud on my name.

For me to have gone into this operation with these unknown foreigners with no relationship between us and risked my good name, and even more seriously, the good name of my friends whom I brought in on the board, Senator Symington, General Gavin, Mr. Quesada, it does not tally with one's reasonable experience.

I was not conscious of getting into an improper posture or one that might lead to a situation in which my reputation would be af-

fected.

So I suggest that one might take that factor into consideration, that I came into it because I thought that I was being told the truth.

There were a great many others that were in the same position as I.

I do get some comfort from the fact that the Bank of England went on year after year without knowing that this situation was something other than they felt that it was.

That went on with a great number of people.

Perhaps they were extraordinarily skilled at deception.

We learned in some instances it is alleged that they paid some of these so-called investors to be investors.

I don't know whether that is true or not, but if so, that would be part of this wide deception.

Let me take some of the emphasis out of your comment that I made with reference to President Reagan.

It was not fair for you to say just one part of it. I made a comment at a private dinner party.

I said that Mr. Reagan has said that he is going to reduce taxes by \$750 billion, that he is going to raise defense expenditures very substantially, and in 1984, he is going to balance the budget.

I said if he brings that off, then I think he will be a great nation-

al hero.

If he doesn't bring it off, he might possibly be considered to be an amiable dunce.

Now, it was expressed in that manner.

I do not make public utterances about Presidents of that sort. It

was at a private dinner.

Someone chose later on to make it as though it were a public statement. But I think when you put it in that category, it does not have the meanness in it that you placed upon it when you made your comment.

Mr. Armey. Mr. Chairman, let me thank Mr. Clifford for that explanation and clarification.

I didn't know that part of the Reagan story.

The CHAIRMAN. The rules are very clear, Mr. Armey. The Chair has a responsibility to protect any person who, in the course of our transactions or hearings finds his name to be demeaned or defamed or diminished and so we exerted the edges, the outer bounds of that rule, and didn't question rather strongly allegations you made.

I think that we said at the beginning that we were not a prosecutorial body. We are not a judicial body. We are not in a position and we are not competent in that regard nor do we have the consti-

tutional power to do so.

Our investigative powers are well circumscribed and well defined.

What we are trying to extract and trying to steer away as far as possible from is any undue injection of partisanship as is humanly possible to achieve and try to reach the main objective we have before us, which is the eliciting, obtaining, garnering of information to aid us in our legislative processes.

That is it.

Mr. LaRocco.

Mr. LaRocco. Thank you, Mr. Chairman.

Mr. Clifford and Mr. Altman, thank you very much for your time

and your indulgence.

Mr. Clifford, as a tribute to you and your great service to this country, I made plans to spend every minute I could at this hearing and to listen to your testimony.

If you would accept some criticism on your judgment, however, from me as a new Member of Congress, I think you paid too high a commission for that stock transaction that you had. A million dol-

lars was far too much.

As a former stockbroker, I would have done it for far less. I think that it is excessive, and that is what you get for going retail.

Let me say that the central question here seems to be what is an investor, and when is an investor a nominee, and when do you discover that an investor is a nominee.

Assuming that I take everything we have said as gospel, and I have a tendency to do that today, was there any time as you reviewed in the last 9 years, during the 9 months that you prepared for the grand jury and for this hearing, that you looked back and said, we should have known, or there was a clue and we missed it, or if we had re-read this, if legal counsel had been better-was there any time there was a clue that the investor would have turned into a nominee during the last 9 years that you regret?

Mr. CLIFFORD. I made a brief reference to that this morning. These last 9 months has been a troubled, painful time for me. I have thought back over and over again. I may have mentioned this morning, I suppose perhaps a hundred times I have gone back over

it and analyzed all of the different steps.

And I kept saying to myself, there must be some time during this period in which something would have happened that would have alerted you.

Curiously enough, I have not found it. And I have explored my

conscience as completely as I can, and I did not discover it.

I do not now know it.

Mr. LaRocco. Even looking at the documents for both of you, there is nothing that re-read or in a different context it would have said that is a nominee?

Mr. CLIFFORD. That is right.

Mr. LaRocco. Mr. Altman, you said during testimony you had no way of knowing BCCI had acquired stock. If today both of you were outside counsel for yourselves, knowing what you know after the last 9 months, would you advise your client yourselves of different questions to ask to determine whether investors are nominees?

Have you learned anything from that, and can you impart that

to the committee, if you understand my question?

Mr. Altman. I believe I do, sir. I think the general counsel of the Federal Reserve made an apt observation. The gist of it was when people are determined to engage in fraudulent practices, and particularly when they structure transactions outside the United States, it is very, very hard to detect that.

And it is hard, Mr. Clifford says, as we have looked back on it, to

determine what we should have done differently.

These people all testified under oath. Mr. Abedi and others from

BCCI testified under oath.

You had an unusual amount of sworn testimony that you don't normally have in a commercial transaction. Then you had people who were rulers and the most leading figures from the Middle East; and they would interact with the BCCI people, as Mr. Clifford has said, in such a way as it would be very clear that they were the principals and the BCCI officials were their agents.

And they were people of enormous wealth, so to get involved in a criminal conspiracy seems to be inexplicable. Why would people who have \$100 million net worths and up—and we know they do because we have seen the numbers—why would they get involved

in something like this?

Then you have the bank references, company references that they gave. You have data. All of this became certified by Big Eight

accounting firms.

And then you had the Federal Government which independently did an enormous investigation, because this had followed a high profile case, so the regulators were approaching it very carefully; and a further investigation was done not involving us.

They went to the State Department, CIA, FBI, to Middle East experts at multinational banks, and everybody came back with the same reports; these are reputable people, these are people of the

highest standing.

I am not sure what it is—were I advising someone in my position—I don't know what in human affairs one can do to be more

certain of information that is being presented.

I do have the caution. I don't know ultimately what the facts are. Price Waterhouse has said that the records of BCCI are suspect or incomplete, so exactly where all of this shakes out is something that will be uncovered, I am confident.

Mr. LaRocco. What do we do if the next bank, the next generation to prevent this from happening to you or to the United States

or to the banking system so what have we learned?

I am asking you to help the committee to say to the next generation or to the next American bank with foreign investors, where do you go to get the information that would turn this up or are we at the hands of unscrupulous people and this will happen again?

Because if you don't have the answer to that, I guess we will have to come up with some legislation that will help put further regulations perhaps in the place of international business and so

forth.

If you see what I mean here. I am looking for help for the committee because I think that is one of the reasons we are here today. It is not necessarily to ask you specifically what you knew when. It is to help.

Mr. CLIFFORD. One of the phenomena of this entire experience has been the fact that at different stages we read, and it is an agonizing experience to read, that some agencies of the Federal Government had knowledge about BCCI's conduct in the early 1980's.

Then in 1984, the CIA gets some information. And then at another stage, some other branch of the government gets some infor-

mation.

If at any time we had gotten any of that, we could have avoided this. If we had learned this in 1982, we would never have gotten into it.

If we had learned it in 1984, we would have pulled out before the damage really was done. So that you gentlemen will want to give a major part of your attention to seeing that when any one of the branches of our government gets some information, that for heaven's sakes there would be proper dissemination of that information.

Why would it be that if the CIA has information in 1984, why is it not passed on to the Federal Reserve? Why is it not passed on to the FBI? Why is it encapsulated in such a manner that the rest of

our government doesn't know about it?

We would have been the beneficiaries of this—I am looking at it personally, and we could have avoided this extraordinarily painful experience if at any stage we had gotten something from the gov-

We didn't get it from the government, and at the same time if we were allegedly being deceived all this time, so was the Federal

Reserve allegedly being deceived.

Now, there is a real breakdown in government. I remember an analogy to it that has some significance. We should not have been surprised at Pearl Harbor. For 2 years prior to Pearl Harbor, different information was coming into our country. Some of it came from the amount of scrap iron that Japan was buying. Some of it came from other kinds of purchases. Some came from bulletins from our Ambassador in Japan that were partially being ignored. And no one place centered all that information. It was in differ-

ent pieces throughout our government. Had it all been gotten to-

gether, we could have averted that terrible tragedy.

I remember President Truman saying that after the war was over, never again must we exist as a nation without a central intel-

ligence depository.

Now, if we can do that in the international field as far as our Nation's security is concerned, can we not do it insofar as commercial and business and banking matters are concerned?

So this is certainly one lesson that we have learned, and I am sure you men are as obvious of it as I am.

Mr. LaRocco. Thank you.

The Chairman. I ask unanimous consent you be granted an additional minute.

I have almost always said, how could you now have been alerted? It is true, government officials, there is no question we ought to have coordination.

But, under our system, the private sector, the board of directors of banks, have a duty to inform; and the government agencies that are regulating the banks depend on sworn statements and information that must be forthcoming only from those boards.

Now, the thing that bothers me the most is Mr. Clifford, you say well, you have examined your mind, your conscience, and you cannot at no time—what about the 1988 drug laundering case that you defended in Florida? BCCI spent a total of \$45,346,353 in that defense, and all of that money was drawn through the First Ameri-

And I am going to ask unanimous consent to submit for the record the itemized list of expenditures as reflected in the documents we gathered from First American on this page.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. Clifford, with all due respect, how could you not have been bothered by the nature of that case involving BCCI? Couldn't that have triggered off a question, a sort of a uncomfortable feeling about all of this?

I can't understand—it seems to me that is being very obtuse, and I say so reluctantly because I don't like to formulate judgments.

I like to suspend judgment, but in the light of that one case involving BCCI directly, and your dual role as counsel and also chairman of the board of First American—I don't know how to explain that.

Didn't it bother you to see that very serious case, the amount of money—that is \$45 million that BCCI targeted for that defense?

Mr. Clifford. Let me start to answer and then Mr. Altman will finish it because he was much closer to it than I. The first we knew of any dereliction on the part of BCCI was to read in the newspaper that an indictment had been brought in Florida against BCCI for laundering funds. At that particular time we get word from BCCI, would we kindly organize a team of specialists, that is criminal lawyers, who would defend the case. They tell us at the very first opportunity, maybe the next day or so—we knew absolutely nothing about this event. This was a local item. There were nine individuals that were involved in it. We know of no others who were involved. We knew nothing at the management level.

This was positively against the policy of the company. We have had this policy in effect for a long time, and these people violated the policy. We accepted that. In the first place, if a client gets into trouble you don't walk away from him. In the second place, it gives you an opportunity to look into the matter and ascertain the facts

for yourself.

We did look into the matter. We learned a great deal about it. And what we learned about it was astounding—that the charge leveled against BCCI for laundering funds was confined only to the

money that government agents, performing in a concealed capacity, were passing on through these particular employees. There was no proof offered of any other laundering of any drug money-just what the government had done for some 2 years in this planning and their concerted action against BCCI.

I do not know the details, as Mr. Altman does, about the attitude of the judge. But the judge at the time was very severe in his attitude toward the case. So that I did believe, and I believe today that this was a local operation by that group of individuals who put it on down there that day. I do not mean by that to exculpate BCCI from all that we read about, because I don't know.

But you asked me the question directly, I am giving you an answer as directly as possible and Mr. Altman, who handled it, can

add something to it.

Mr. Altman. A couple of comments, Mr. Chairman, if I might. First, it should be absolutely clear in the record that the money laundering incident down in Tampa did not involve First American. This involved BCCI. I think the points that I might add to supplement Mr. Clifford's observations are these. First, we were informed that this was an aberration and reflected an effort by a few employees down in Florida.

That was not simply the position that we are presenting to you. That was the position of the prosecutors in open court; that the transactions violated the policies of BCCI. They introduced into evidence in that case that BCCI had policies against money laundering, that these transactions were kept secret from the supervisors

of these individuals and the like.

So we were hearing from the government that the transactions which were the subject of that indictment did not reflect the policy of BCCI. We discussed this, of course, with the senior management of BCCI in London. They said the same thing that the government said—that they did not condone money laundering practices, they had policies like other banks against money laundering, and we accepted that.

In the aftermath of the indictment, however, there is another fact which has not been generally mentioned, and that is this: There was a team of very well regarded defense lawyers, former Federal prosecutors who had been retained and together with Price Waterhouse they reviewed systematically, I believe, virtually every file of BCCI in the United States and a good many files abroad. Price Waterhouse did a rather thorough review.

Again, the report that we received back was there was no evidence of systematic money laundering at BCCI. Now we hear the reports today that are totally inconsistent with that conclusion but we are presenting this committee with the information we had, as we represented BCCI back in 1988 and 1989.

Mr. Clifford. One quick addition to that, Mr. Chairman.

You have mentioned a very large sum of money that had gone for attorneys' fees. Let me hasten to add, none of that came to our firm. BCCI chose to employ counsel for their two companies that were indicted and they chose to defend the individual defendants who were also involved. That is not unusual.

Many American companies do that—when their employees are indicted, they extend that defense to them. Stretched over a substantial period of time, every defendant had to have an individual lawyer. It was a complicated case.

One of the functions that BCCI asked us to perform was to have the bills come in to us and have us go through and check the reasonableness of the bill. We did that over a period of time. It took quite a lot of time and effort.

But the funds that flowed out flowed to these white-collar criminal lawyers who defended the case and we had no part of that at

all come to our firm.

Mr. Altman. It is obviously understood by the committee that we were paid for the work we did in that regard but the funds that were paid to my recollection didn't come out of this defense fund.

Those were separately billed.

The Chairman. You did orchestrate the defense. No matter who the attorney of record was in the actual trial, you orchestrated this. This article in *Money Laundering Alert* states that, from its account at First American Bank in Washington, DC, the law firm of Clark M. Clifford from 1988 to 1990 served as the paymaster in the Tampa money laundering prosecution of BCCI and eight of its employees. The firm paid the legal fees of all defendants in the case and all BCCI employees were called as witnesses.

The law firm also paid the fees of the accounting firm Price Waterhouse, a number of private investigators, and others who were recruited with the firm's blessing to provide services in the Tampa

case.

So you weren't just the bursars, the paymasters, you were orchestrating that defense and okaying the checks that were being drawn for the legal defense, drawn on the funds deposited in First American.

So it seems to me that with that expensive—if there is a local case and you have those local prosecutors facing \$45 million arrayed against them, boy—I can see where that is overwhelming.

Mr. Leach. Will the Chairman yield?

The CHAIRMAN. Mr. LaRocco was yielding.

Mr. Leach. I am not an expert on this subject, but minority counsel tells me that part of the information brought out in the case itself was that there was money laundering involving Mr. Noriega, money laundering involving the Medellin Cartel. If that is the case it should have come to the attention of attorneys involved I would assume.

Mr. Altman. That is not my understanding. I was not counsel of record and I was not at the trial so I can't be perhaps completely informative on this, but it was my understanding that there were no funds of the Medellin Cartel that were laundered. I believe that there was a related indictment and originally one large indictment and then broken into several cases where originally it related to cash transactions that tied back to the Medellin Cartel.

My understanding of the case in Tampa was that the government used funds which in this particular operation, was not cash. The funds were wired through BCCI and hidden around the world and that was the nature of it, and I believe that the references to Noriega were not pursued at trial.

I don't know exactly what the evidence there was.

Mr. Leach. I am told by counsel that they were in the trial transcripts. I don't want to pursue this further except with one other observation. The two of you symbolize a great deal in American life and one is a knowledge of foreign affairs and judgment about

people.

One of the assumptions of your testimony today is that you were dealing with very honorable people and they came well recommended and that you have been duped. It is my understanding, though, based upon a good deal of talking with people that are experts in the Middle East as well as people in banking that in American banking circles BCCI had an extraordinarily poor reputation. In the Middle East in general it had an extraordinarily poor reputation. We are not dealing with a circumstance, as described, where people with enormously high reputations dealt under commonly understood ethics. Throughout the world, for a long time in this particular specialty and the banking arena, there have been great doubts for a number of years.

I am told that as a member of the Banking Committee from people that I talk to in banking circles. I only raise that because you as head of a bank have come to become experts in banking, and as people that deal in international affairs. You have many contacts around the world. There is a picture that has been painted that there have been a lot of rewards for dealing with people of

rather shady reputations for which others have doubts.

You indicated in earlier testimony that another law firm wrote a memorandum. That other law firm certainly was suspicious about

BCCI's involvement with your holding company.

You may not have been, but who ever wrote that memorandum surely was. So there is something about your blindness to the people of which you have been representing that I think relates to this circumstance.

Mr. Altman. If I could respond, Mr. Leach, I guess two essential responses. One, insofar as the reputation of the people with whom we were dealing, we devoted a good deal of our attention to the reputation of the Middle Eastern owners, the ones who were listed as the shareholders of record.

These were people like Sheik Zaied, the President of the United Arab Emirates and others. The shareholder list, I am sure, is available to the committee, and there were extensive reference checks

done on these people.

Mr. Clifford read this morning from the letter that was written by the New York banking department to the Congress in which they said there was nothing derogatory that was discovered. Insofar as BCCI was concerned, a separate representation, we were certainly aware of questions about BCCI and that some of the banks did not deal with BCCI.

Those concerns, however, as we understood them, related to the fact that BCCI did not have a single consolidated regulator, and

BCCI therefore did not have a lender of last resort.

Now, the response to that, that was actually borne out for a while by what transpired in 1990 was that BCCI was backed by such wealthy Arabs, such as Sheik Zaied, that they had ultimate lenders that were better than a lot of the central banks, and so that was the response that was given.

A number of banks, Security Pacific, Bank of America, American Express, Bank of New York, on and on, a lot of banks did deal with them. Some banks did not like their regulatory structure or they had other reasons perhaps that I am unaware of and did not.

But I want to address the last point that you made, and that relates to the memorandum that was prepared by the other law firm

in connection with the National Bank of Georgia transaction.

That law firm did not suspect BCCI of impropriety or BCCI of secret ownership of First American. That language would have been used if the other party in the transaction were Citibank. It was the nature of the structure of the deal, not the identity of BCCI that, at least it is my understanding, was at issue there.

And so I want that to be clear for the record. I am sure that law firm would be happy to provide you with a further and fuller ex-

planation.

Mr. CLIFFORD. May I add just one word, sir, and that is at no time did I hear any criticism directed at BCCI that affected the character of BCCI or the fact that it might have been engaged in any kind of fraud.

We did hear this suggestion that some banks would have preferred that they had a strong central regulator, but keep in mind that, right up along to the very end, their banking relationships in

this country were very strong.

They continued right on with their relationship with Security Pacific, with Bank of America, and with American Express. The fact is I think that perhaps they had some credit balances at some of those that I have read about, so that kind of information never came to my attention other than the one of this regulatory problem.

The CHAIRMAN. Mr. LaRocco, I believe your time has expired.

Mr. Orton.

Mr. Orton. Thank you.

In fact, Mr. LaRocco, either our minds work a great deal alike or you have a very good eye at reading my notes. Your last question came almost word for word from mine.

Mr. Clifford, I also respect your public service and reputation. As I think back on your public service, you were a counsel to the President before I was even born, and I find myself now somewhat troubled in sitting here in having to inquire of you into questions such as these questioning your judgment, your analysis, the deci-

sions you made.

It would be a lot more convincing as you tell this committee and the people in America that the BCCI did not control the activities of First American if you could describe for us some instances in which in these 26 some odd meetings back and forth to London, or other discussions with them, if you could describe for us some instances wherein you made a decision contrary to the advice of BCCI or you did something against their opinion, something significant in operating First American that was contrary to it.

Mr. CLIFFORD. Well, that puts it in a rather different light. BCCI personnel understood what the nature of the original agreement was that I had with Mr. Abedi and Kamal Adham, that had come

right down through the organization.

It was central to our relationship, and it goes back to the time when I said to Abedi and Kamal Adham, I will accept the job if I have total responsibility and have total authority.

Mr. Orton. OK. Can you cite an instance wherein you made a

major decision that went contrary to the advice of BCCI?

Mr. CLIFFORD. It isn't the question of our getting advice from

BCCI. They didn't consider it their function to give us advice.

Mr. Orton. OK. I understood that you were traveling some 26 times to consult with them and get their recommendations and advice and so on.

Mr. CLIFFORD. We did not go to them for advice.

Mr. Orton. I have a couple of other questions, one of which deals——

Mr. Altman. Mr. Orton, if I could, if I could give you a couple quick examples.

Mr. Orton. Quickly.

Mr. Altman. On items we had discussed, two quick examples. One, the CEO in New York was a man named William Duncan. He continues to be the CEO. He has been there approximately 6 years. BCCI came to him with business that it wished to transact with him. It has done this on more than one occasion.

He has explained how it was not business that he wished to do, and he refused to do that business, and he was, of course, supported by First American. So it was a direct request by BCCI that was turned down, and of course supported by the First American organization.

The second quick example. National Bank of Georgia was acquired by First American in 1987. Prior to that time, it had been owned by a man named Pharaon who had a very close relationship with BCCI and Mr. Abedi. Indeed, it is now alleged that he was a nominee.

Whatever those facts are relating to NBG, it was clear that NBG, while Dr. Pharaon operated it or owned it, operated in a manner similar to a lot of the practices engaged in at BCCI. They had a logo that was like BCCI, they had seating that was like BCCI, they had BCCI literature there, they had a similar strategic focus and the like.

When we acquired——

Mr. Orton. The time has been expired, so if you could quickly—Mr. Altman. After we acquired the bank, we made extensive changes. We installed a man as CEO there who had no prior dealings with BCCI. People who had formerly been associated or close to BCCI were replaced by us and these various operating practices were changed.

So we moved in exactly the opposite direction from the way it had been operated, and it was operated consistent with all of the other First American banks.

Mr. Orton. OK. My other question has to do with the purchase and sale of the stock. I guess the problem that many on the committee have is, as you look at the scenario, you find two individuals, attorneys, brilliant reputations, certainly should understand the transaction that they are involved in.

You have a situation where they are operating on the board of directors and presidents of an entity at the same time their law

firm is performing services and receiving millions of dollars in compensation for services for the same entity.

At the same time, they are given the opportunity to acquire stock and loaned \$15 million aggregately to acquire that stock in the parent company with a loan, a nonrecourse loan which requires no money being put up, requires no financial risk, personally.

The stock is acquired and within a year and a half later the stock is sold for three times its value, for \$15 million, approximately, in profits after the loans are paid off and the interest is paid off, and still another approximate \$15 million worth in stock is held by

those two individuals.

And at the time Price Waterhouse, whom you have mentioned numerous times, is relying upon their expertise and advice in financial matters. Price Waterhouse indicates that, quote, we do not consider the \$6,800 price indicative of the market value of the shares, close quote.

This is in an audit by Price Waterhouse. They indicate that the book value per share was approximately \$2,523. Using the market value approach, if you owned a controlling interest, the value of the shares would be approximately \$3,700 minus a controlling in-

terest.

If you held a minority interest, the value would be approximately \$3,000 per share. If you used an earnings basis, the value per share would be somewhere between \$1,900 and \$2,400 per share, yet the stock is sold for \$6,800 per share.

Is there anything at all in that scenario which would lead you to believe that independent judgment may be compromised? Anything

at all that leads to a compromising position in that scenario?

Mr. CLIFFORD. I made an effort in the morning session to explain that we had rendered, what we considered to be, an extraordinarily valuable service to the shareholders. We had doubled and perhaps more that doubled the value of their investment. They invested \$500 million.

We then, after a while—you may have been here at the time I told them—an offer that we had for \$1 billion. As a result of our efforts, we felt that we had made \$500 million for these people.

Mr. Orton. OK. Excuse me, I don't mean to interrupt, but did you take any steps independent of your own analysis as to the value of what you had done? Did you take any steps to show the arm's-length of these loans and sales or the fair market value of the stock being sold?

Did you ask Price Waterhouse or anyone else to value it? Did

you get any kind of independent evaluation?

Mr. CLIFFORD. We wouldn't go to Price Waterhouse. They weren't involved in the matter.

Mr. Orton. OK, anyone.

Mr. CLIFFORD. What we did have as a precedent was a sale, a large sale at \$6,100 a share. Price Waterhouse—

Mr. Orton. To an inside shareholder?

Mr. CLIFFORD. The bin Mahfouz family decided they wanted to gain an interest in First American. It looked like a real comer. They were not a shareholder, but they decided to take an important position, and sometime between 1986 and 1988 they came in

and they bought a large block, and they paid cash, and they paid \$6,100 a share, and I think the total amount they invested was \$140 million. That helped give us some idea about the value of the

Mr. Orton. But there was no other independent—you didn't go outside yourselves or your firm to determine a market value eval-

Mr. Clifford. No. What I said when I talked to Mr. Naqvi about it was that I would like to get two and a half times book value. That was the going price, lots of stock was being sold. 1988 was a time of lots of mergers and lots of acquisitions.

Two and a half times book value was within a general range of prices that were being paid. I said that is what we would like to get

and that is what we got.

Mr. Orton. My time has expired, but let me just end by saying that the testimony is very, very disturbing to me because if, indeed, your judgment was not clouded and if, indeed, as you have testified, there is absolutely no reason to know or to support that any illegalities or improprieties may be taking place, what do we have to rely upon if we cannot rely upon our regulators, which everyone has concluded that if someone seeks to hide, to cover up, to buy off, to defraud the government or the banks or the stockholders in this situation, if they choose to do so, they can hide it from the regula-

And if we cannot rely upon the professionals, experts, attorneys, advisors, CPAs who should have red flags go up, if we—if there is absolutely no red flag in this situation, nothing to raise any kind of a question in any of your minds, then it is very disturbing, indeed, because we lie at the mercy of unscrupulous crooks and criminals throughout this entire situation.

And I certainly hope that is not the ultimate result of this hearing. There must be some way that we can know, that we can discern, that we can ferret out these types of transactions, and if we can't rely upon the honesty and the integrity and the judgment of fellows such as yourself to see those things taking place, then we

are in deep, deep trouble.

Thank you, Mr. Chairman. The CHAIRMAN. Mr. Slattery.

Mr. Slattery. Thank you, Mr. Chairman.

Mr. Clifford and Mr. Altman, I am sure you are anxious to get out of here, and I will try to be as direct as I can be.

This morning, Mr. Clifford, you indicated that when Mr. Abedi hired you as chairman of the board, the reason you accepted this position was because it was a great challenge; is that correct?

Mr. Clifford. Yes, that is correct.

Mr. Slattery. I am just curious, in light of the fact that Mr. Abedi hired you, as you have just indicated, and indicated this

morning, I am curious who could have fired you?

Mr. CLIFFORD. It isn't quite accurate to say that Mr. Abedi hired me. Mr. Abedi and Sheik Kamal Adham represented all of the investors, and we had represented the investors for 4 years before this conversation took place about my coming into the job.

We had gotten to know them, they had developed confidence in us, and the fact that they gave me this opportunity was the result of conversations between Abedi, Sheik Kamal Adham, and the investors.

Mr. SLATTERY. OK. I read your testimony, and in your written testimony, you indicated that shareholders hired you. In your oral testimony this morning, you said Mr. Abedi hired you, and you talked about the conversation, and that Mr. Abedi made the offer to you, you specifically mentioned his name.

Mr. CLIFFORD. There is no distinction between that because Mr. Abedi and Sheik Kamal Adham were the spokesmen for the investors. Somebody had to be their spokesman. They had been designat-

ed as spokesmen.

Mr. SLATTERY. Every organization has a spokesman, and they were their spokesmen?

Mr. CLIFFORD. That is correct.

Mr. Slattery. Let me ask you, then, if they made you the offer, then who in your judgment could have fired you? Who would have

been communicating to you about that bad news?

Mr. CLIFFORD. Well, for 5 years, nobody could have fired me because we put into effect the Symington Voting Trust in which 60 percent of the investors—see, they changed from time to time, but there would always be 60 percent of the investors who were part of the voting trust and gave that authority to Symington, so I needed that protection for 5 years to get started.

But in the last analysis——

Mr. SLATTERY. So your testimony, then, Mr. Clifford, is that no

one could fire you for 5 years?

Mr. CLIFFORD. If they had indicated very strongly that they were dissatisfied, obviously I would not have stayed from a practical standpoint.

Mr. Slattery. I am curious, who could have fired you?

Mr. CLIFFORD. The investors, the men who hired us through Kamal Adham and Abedi could have at sometime chosen to dismiss us.

Mr. Slattery. OK. And that would have been Mr. Abedi communicating that to you, I assume.

Mr. CLIFFORD. It would have been exactly as we had communicat-

ed with the investors all through these years.

Mr. Slattery. But my concern, I guess, is that if Mr. Abedi was in the position, on behalf of the investors, to make you the offer, and if you indicate that he would also have been the person that, on behalf of those investors, that could have removed you, although the relationship was somewhat distant there, the fact is he was your contact person with these investors, as you have testified on several occasions here today.

Mr. Clifford. That is correct.

Mr. SLATTERY. This seems to me to create a basic prinicipal/agent relationship. Is that the way you would describe it?

Mr. Clifford. I missed a word in that.

Mr. Slattery. The principal/agent relationship.

Mr. CLIFFORD. Oh, yes. He was our contact with the investors.

Mr. SLATTERY. We talk about BCCI controlling First American, and this morning when we started this hearing, I made two points. I said the question is: Did BCCI control First American, yes or no?

The next question in the broader issue is why our government wasn't more active and involved in communicating among our different agencies of government and where was the executive branch of government, where was the chief law enforcement officer in this country?

Back to this question about BCCI, though, and whether it controlled First American. As I listened as carefully as I could today, it seems to me that organizations don't control other organizations,

people control organizations and people control people.

Now, as I have listened today, I can't help but conclude that Mr. Abedi controlled BCCI. He, as the founder, he was the president, he ran it. I don't think there is any question about that. Mr. Abedi also apparently, on all appearances, controlled or certainly was the conduit of information, power from the investors to you.

By your own testimony, he made the offer to hire you. By your own testimony, he also had the authority, ostensibly, to remove you on behalf of the investors. It would create the appearance, Mr. Clifford, that he controlled the investors. He clearly controlled BCCI.

If he hired you and if he could fire you, he controlled you, and it was Mr. Abedi that controlled First National through you. It wasn't BCCI that controlled First National. I mean, I can't help but come to that conclusion. I want to give you the opportunity to

respond.

Mr. CLIFFORD. I made an effort earlier to describe the fact that with reference to bank control, there are two definitions of control. One is the Federal Reserve came out and said in a statement, BCCI controls First American, and they based that upon the fact that stock was found in the vault at BCCI that indicated to the Federal Reserve that they owned enough stock to constitute that form of control.

Mr. Slattery. I am aware of that, and I go back to my point, and we are running out of time and you are anxious to go home, I know.

Mr. CLIFFORD. The other type of control is actual management control.

Mr. Slattery. I understand.

Mr. CLIFFORD. The Federal Reserve understands that. Abedi and Kamal Adham, as agents for the investors, extended to me and

gave to me total management control of First American.

Mr. Slattery. I don't think we are saying—this is the brilliance of your position that I am getting to, I believe, and that is what you are saying may not be necessarily untrue, and what I am saying is not untrue, either, OK, in the sense that BCCI, through Mr. Abedi, and Abedi controlled BCCI, we have agreed to that.

And if Abedi hired you and if Abedi on behalf of his people could fire you, I measure control in my office with my time on the ques-

tion of who works for who and who can fire who.

And if Mr. Abedi could replace you on behalf of his investors, he controlled you, Mr. Clifford, and he controlled Mr. Altman. The problem is—and the point you are making, and I think with truthfulness, is that you, in turn, controlled the bank. I don't dispute what you are saying.

There is a fine legal argument that we are making here, and when Mr. Abedi could remove you and Mr. Altman, as you have

just indicated, on behalf of his investor group, then he, in effect, controlled you, and that is the point that I would like for Mr. Altman now to describe.

Mr. CLIFFORD. If I may presume, the fact is that as you analyze it technically and academically, I go right along with you. But——Mr. SLATTERY. Thank you. I appreciate that. That is a very im-

portant concession on your part.

Mr. CLIFFORD. Right, but there can be exceptions, and the exception was made in this case by this agreement between me on one side and Kamal Adham and Abedi on the other.

Mr. SLATTERY. Now, you are talking about the Symington agree-

Mr. Clifford. Well, that was part of it.

Mr. Slattery. Would you be happy to provide to the committee, by the way, your employment agreement that was involved here? Did you have an agreement with Mr.-

Mr. Clifford. A written agreement? An oral agreement.

Mr. Slattery. Oral agreement. You are like my father, who said the best agreement is a handshake as long as you knew whose

hand you were shaking.
Mr. CLIFFORD. Right. Let me end up on this point. The fact that we had total control and exercised it for 9 years is demonstrated by the fact that First American was operated honestly all during that

Mr. Slattery. See, we are getting off the point.

Mr. Clifford. No, we are not.

Mr. Slattery. Because I don't dispute that. I concede that. I don't have any evidence at this point to suggest that First American was operated in any other way than what Mr. Altman has described here today.

Mr. Altman. But with the reputation that BCCI has and you say they had control of First American, then it shows, in my opinion, they didn't have control of First American because there wasn't

one single dishonest event that took place in 9 years.

Mr. Slattery. I understand precisely what you are saying, OK? I also want you to understand that from my perspective, when someone hires someone and when someone can fire someone, then they have control over that person in terms of their working relation-

And I would just observe again that that was the situation with you in your relationship with Mr. Abedi. You are shaking your

head no, Mr. Altman.

Mr. Altman. That is incorrect. Mr. Slattery. I don't want to lead you along. I just want to give

you the opportunity to explain yourself.

Mr. Altman. First of all, I think we are speaking, loosely, when you say Mr. Abedi could fire us. Mr. Abedi did not have the authority to fire us. Mr. Abedi could speak for the shareholders.

Mr. SLATTERY. Who could fire you?

Mr. Altman. The shareholders could fire us. Now, if Mr. Abedi-

Mr. Slattery. All of your contact with the shareholders was really through Mr. Abedi because you didn't know who the shareholders were.

Mr. ALTMAN. That is what I wanted to correct, Mr. Slattery. That is not true. We had contact directly with the shareholders.

Mr. SLATTERY. Which ones?

Mr. Altman. I would be glad to list them for you.

Mr. SLATTERY. OK.

Mr. Altman. Let me finish my——

Mr. SLATTERY. Will you do that for the record?

Mr. Altman. Sure, absolutely. Let me just finish my point, if I might. We had direct contact with the shareholders. We had it face to face. We had it over the telephone. We had it in writing. The shareholders, for example, when we had annual meetings, voted their stock. BCCI did not vote their stock.

Every year the board of directors had to be elected after the Symington Trust expired, and the shareholders voted their stock. So Mr. Abedi did not have the power to fire us. Now, if he had some secret control over rulers in the Middle East, which on its face seems to turn the world upside down, but I can't explain that these days, then he had some secret deal. But in terms of who is exercising control, Mr. Abedi was not exercising control. He did not have the authority to fire us. The shareholders had that power.

Mr. Slattery. I understand.

Mr. Altman. That contact was not exclusive through Mr. Abedi. Although BCCI served as the administrative liaison and proved to be an efficient means for communicating with the shareholders, we also dealt directly with the shareholders. Would you like me to try to list those for you?

Mr. Slattery. Why don't you provide that for the record because

I know you are anxious to get out of here.

[The information referred to can be found in the appendix.]

Mr. Slattery. One of the things I wanted to come back to and we have talked about this, and that is this June 17, 1986 letter from Mr. Clifford to Mr. Abedi and the attached memo that several people have cited. This language on page 4 of that memo, which is on page 8181, you are familiar with, we talked about it earlier today.

The language says, in addition, the proposed structure may focus unwelcome attention on the relationship between CCAH, First American, and BCCI and raise question as to whether BCCI has acquired control of the National Bank of Georgia.

I am just curious, what unwelcome attention would they be referring to? And what unwelcome attention were you, by reference, re-

ferring to?

Mr. CLIFFORD. I think Mr. Altman addressed himself to that this morning.

Mr. Slattery. Not specifically on this point, I don't believe.

Mr. Altman. I will be glad to repeat it.

Mr. SLATTERY. What unwelcome attention are they talking about?

This is the specific relationship between First American and BCCI. That is what they are specifically talking about. I would like to know what unwelcome attention they are referring to. Would it be perhaps the fact that at this time you still had this large loan outstanding with BCCI?

Mr. Altman. No, sir. It had nothing to do with it. I will be glad to explain.

Mr. Slattery. Please do.

Mr. Altman. It seems to be a memo that people have a hard time understanding. First, let me say again, this memo was not written by us. This memo was written by another law firm. It did not deal with the subject of the relationship between BCCI and First American that is now being examined at some considerable length in these hearings and other investigations. This dealt with a specific transaction, and it dealt with stakeout guidelines. And the unwelcome attention" would have been the same language that would have been used if instead of BCCI, the other party in the transaction which was engaged in a loan to the seller of the bank was Citibank or American Express.

That is the legal analysis—that someone may consider in the structuring of this transaction that the other party, here BCCI or in my example, Citibank was making a loan and whether that violates the stakeout guidelines. It was a technical legal issue and has nothing really to do, as I understand this memo, and again, recognizing I didn't write it, it had nothing to do with these issues.

Mr. Slattery. OK. I understand.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Slattery. OK.

The CHAIRMAN. Mr. Sanders.

Mr. Sanders. Thank you, Mr. Chairman.

Let me congratulate Mr. Clifford and Mr. Altman for their endurance and to thank you for waiting 10 hours for me to ask you a

few questions. I appreciate that.

Mr. Chairman, ironically, today is the first day that we are back from our summer vacations, and it is always amazing to me when I go home to my district, which is the entire State of Vermont, and I see reality at home, and then I come here and I see the reality that takes place here, and I hear what I have heard today, and I try to put myself in the place of the average working stiff in this country, the guy who is making \$5 or \$8 an hour, the people in my State whose farms are going under after working 60 or 70 hours a week, 10 percent of our people are unemployed, the people who can't afford medical care, and I listen to what is going on here, and I try to put myself in the position of someone watching this on C-Span after a hard day's work, after hearing what has gone on here for the last couple of years with the S&L frauds and the greed and stupidity of the commercial banks, and my questions to you, you see, are going to be different than I think anyone else has asked you.

I am going to assume that everything you are saying is true. I am the only person here who is going to say I accept everything you are saying, and I am this guy who makes \$7 and \$8 an hour, and you are multi-millionaires and I ask you this question, sirs, Mr. Clifford, what does the average person in this country feel when we have multi-millionaires who are working for Middle Eastern dictators and I want to ask you a question here, and this has not come up, in the brief that your lawyers have presented, you say that the Sheik Said al-Nahyan is the ruler of Abu Dhabi. My question is, what was the election results of his last election when the

Sheik pulled out a victory? He is a dictator, is he not?

Mr. Clifford. Yes, sir.

Mr. Sanders. He is a dictator; he is a king. We overthrew a king

200 years ago.

Assuming everything you said is true, you know nothing about BCCI running First American, tell the American people and the working people 8 and 10 bucks an hour, whose standard of living is declining, what it is about when prominent Americans work for Middle Eastern billionaire dictators who provide \$10 million lines of credit, and as a result of that, they are able to make many millions of dollars of profit in a couple of years.

I assume everything you have said is true. Tell that to the working people of America. What should they believe in that type of

system?

Mr. Clifford. One must start by saying that when we are approached by representatives of these Middle Eastern potentates, I go to the Government first and I say to the State Department, should we accept this employment. Is there any rule against it?

They say, no, there is not; foreign banks and foreign individuals can acquire U.S. properties under the proper circumstances.

I checked—the Treasury, I have some recollection of checking there. So my government tells me, it is perfectly all right for you to represent these persons.

Mr. Sanders. You have not heard me suggest that you have done

anything illegal.

Mr. Clifford. I am leading up to something, and that is that these people abroad decide that they want to acquire this bank holding company. So they get together and they come up with around \$200 million.

Now, this may be difficult for citizens in Vermont, who make \$8, \$10 an hour, to understand, but it happens all the time. Groups get together and they come up with the \$200 million, and a New York investment banking house handles a deal—Nabisco, that involved \$25 billion. So these events go on.

Then these people put another \$300 million into it, and we then take hold of the whole matter, and we are able to transform that and build it up from a \$500 million company to a \$1 billion company. And then, when the time comes for our reward, it is commensurate with the unusual type of service that has been rendered.

Mr. Sanders. I understand what you are saying, and it makes sense in a certain way, but I think living in a country where our people are becoming poorer, I think where people are becoming alienated from the political process, where people don't vote or believe in government, where people are angry or frustrated, I think the overall scenario that you are describing is something that is in many way appalling to the American people. We should not be working for Third World dictatorships.

You indicated earlier, you stated this morning that the so-called "investors," our friends in the Middle East, had a special interest in Financial General Bankshares, which is presently First American, because it had the grandfathered ability to bank over State

lines.

Mr. Clifford. Yes.

Mr. SANDERS. There is a fierce debate taking place on this committee as to whether or not we should abolish the rights of States to say that large banks cannot come into their States, whether we should encourage interstate banking or whether we should not. My concern is, if the BCCI alleged participation in First American had not come out, your goal was to create 1 of the 10 largest banks in

Mr. Clifford. We hoped to.

Mr. SANDERS. Isn't there a concern that if the BCCI alleged connection had not come about, and if we did not have-if this President's legislation abolished interstate banking and would allow First American, with BCCI connections, to move into any State in the country, without proper regulation, isn't there a real potential danger that you could have a situation where a criminal bank, if you like, is controlling dozens and dozens of banks and industries throughout this country?

Do you follow my line?

Mr. Clifford. Yes.

Mr. Sanders. My concern is about the abolition of interstate banking and the prohibition of States such as mine saying, we don't want that bank.

What do you think of that potential danger?

Mr. CLIFFORD. I think it would be in the interest of the country if we were to eliminate State barriers as far as banks are concerned. We have some 14,000 banks in this country, and I guess they go broke at the rate of 2,000 to 3,000 banks a year.

I think we have too many banks, and I think that they are not well capitalized. And I think that we would do better if we had

fewer, stronger banks.

Mr. Sanders. I find it amazing—all day, people have been saying, Mr. Clifford, Mr. Altman, maybe you missed something along the way. I find it amazing after 10 hours of testimony, you are saying that we need fewer and larger banks so that institutions like BCCI and criminal elements can run a significant part of the system.

That is your conclusion, based on this whole experience?

Mr. Clifford. You go along fine, and then you leave and go down a side street that I don't remember.

Mr. Sanders. I think it is a fine side street, sir.

Mr. CLIFFORD. I think that it can be done skillfully. We can permit interstate banking; I believe it would strengthen banks. I think that we would find that it would serve our people better, and I think that is going to come about almost no matter what.

We are going to have fewer and fewer and fewer banks. I think I read some time ago, the banking system in Canada is run very well; I think they have eight banks. That does not mean that some rogue bank from abroad can come into that situation and profit by it. That wouldn't affect that any. If they do it with smaller banks, that doesn't mean that they can do it with larger banks.

I think that the committee can profit greatly from the BCCI example. I think the committee is learning a lot from it. I know I have learned a lot, and it has been a bitter, bitter lesson to me. But I know that you can prepare a bill which can go a long ways toward preventing this happening.

Mr. Sanders. After the experience that you two have been in and the pain you must have gone through in the last year, to suggest that this country needs fewer and larger banks owned by large, multinational corporations, influenced by people from other countries, if that is the conclusion that you reached out of your own experience, I find that rather incredible, to tell you the truth.

The Chairman. Mr. Sanders, you could have asked that question of my dear friend, Mr. Wylie, a long time ago, and he would have

given you the same answer.

Mr. Slattery requested 30 seconds more, provided you don't ask the same question you asked before on the questionable language.

Mr. Slattery. I promise I won't. I just wanted to make a brief closing statement. I think that one of the areas that we didn't adequately explore today during this hearing is the explanation for why our CIA, our Department of Justice, our drug enforcement agencies weren't communicating with people in this country; and what happened within the executive branch of government, and why we aren't doing a better job of coordinating our law enforcement efforts.

Last week we heard about, and I participated in a hearing on the Salomon Brothers scandal, and it was the same problem. There weren't adequate, vigorous law enforcement efforts being made.

And it is troubling to this Member that this is an example of our government having an enormous amount of information that could have been very helpful, that wasn't shared with the people that it should have been shared with.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Slattery. Thank you, Mr. Chairman.

The Chairman. I ask permission to place in the record the Members' package that staff had prepared for each Member. Also, a memorandum of law that I have requested of our distinguished General Counsel, Ms. Timmer, that I think Members ought to have with respect to the duties of directors and officers, duties of attorneys, directors, DC rules of professional conduct for attorneys, directors, and officers of holding companies.

[The majority staff report and the memorandum of law can be

found in the appendix.]

Mr. Wylie. Reserving the right to object. I would like the same unanimous consent request for the House Banking Committee magnetic magnetic staff report, dated September 10, 1991. I ask that it be placed in the record.

The CHAIRMAN. There is no objection.

The minority staff report can be found in the appendix.

The Chairman. It is unfortunate that that report should have been leaked on the eve of this hearing with the front-page twist that was given this morning in which, unfortunately, the reference was made to the fact that the witnesses' testimony yet to be presented to the committee had already been judged and that it was in contradiction with what the minority staff had documented.

We had hoped that that would not have happened, but it did,

and that is something we will have to address between us, too.

Mr. Wyle. Mr. Chairman, I asked my staff to do some work on their own to put the report together. I came in yesterday afternoon and looked at it, thought it was fairly well done and that Members on our side of the aisle ought to have the benefit of it. I did not release the report and hope that the Chairman doesn't think that I did something contrary to our understanding and agreement.

The CHAIRMAN. No. But it does raise interest for difficulties in

the future.

Mr. Altman. Mr. Chairman, I want to be sure; would our written

statement also be a part of the record?

The CHAIRMAN. Yes. I said earlier in your testimony that your prepared text, as given to us in ample time, will be in the record, complete, following your oral and verbal testimony this morning. That is a matter of record.

Mr. Altman. I thank the Chairman.

You had asked earlier for some memos regarding some legal advice. That does raise some attorney-client issues, and I ask committee counsel work with our counsel to resolve those, because they may need consent of clients for release. If we could have our counsel speak to committee counsel——

The Chairman. We have anticipated this question arising. The precedents in the Congress are that we don't recognize that in the case of particularly requested and subpoenaed testimony, and also testimony being sought by the committee in its desire to obtain full

and complete information.

The attorney-client privilege is, as I say, in the precedents established by other committees and I believe this one, too, clearly sets forth that the privilege that we hold belongs to the client.

If the client waives the privilege, the attorney cannot claim it. It is up to the committee to decide when it will allow a claim of attorney-client privilege.

However, in acceding to your request, we will agree to have

counsel discuss that with you.

Mr. ALTMAN. Thank you, sir.

The CHAIRMAN. Mr. Leach, did you have any additional state-

ment or were you seeking recognition?

Mr. Leach. I was not seeking recognition. I want to make one comment in partial vindication of our two witnesses. I am one that is not convinced that there could conceivably be a lack of knowledge of control, but I will say given the fact that BCCI apparently controlled a number of institutions, relatively speaking, this might have been one of the better run of the BCCI-controlled institutions, and I am not convinced that the regulators will concur that it has been as well run as has been indicated today relative to other American financial institutions. But relative to other BCCI Saudi-involved institutions it appears that Mr. Clifford has averted having some of the sheer illegality that may have characterized other institutions and that is to his credit as well as Mr. Altman's.

Mr. Clifford. Thank you, Mr. Leach.

The Chairman. Mr. Wylie.

Mr. Wylle. Thank you, Mr. Chairman.

I have two brief questions.

Mr. Slattery said something about the law enforcement efforts. I read a statement in the paper and I want you to refute it if you can, and I think you can, which said that the wife of William Von Raab, a former Customs commissioner, worked for First American. Do you know if she did?

Mr. ALTMAN. She did.

Mr. Wylle. It says that she was fired because of a Customs' investigation of BCCI.

Mr. ALTMAN. That is totally inaccurate.

Mr. Wylle. Do you know why she was terminated?

Mr. ALTMAN. I was not involved in her hire and I was not involved in her departure, but I have an understanding that there were questions about performance.

Mr. Wylle. It didn't have anything to do with investigation—

Mr. Altman. It had nothing to do with investigations.

Mr. Wyle. There is one more exchange of letters that I need a bit of help with. It has to do with a letter of January 22, 1987, from Mr. Imam to Mr. J.C. Lesher of Clifford & Warnke and then there is a follow-up letter from Credit and Commerce Holding Company of January 1987. It is recommended to you as a draft letter, and then you have taken that letter apparently and put it on Credit and Commerce Holding Company's stationery and signed it Robert A. Altman, Managing Director and Secretary.

My staff has a copy of those three letters. Mr. Altman. I believe I have them, sir.

Mr. Wylie. OK.

We have heard your assurances that BCCI did not give directions to board members of CCAH, and this exchange of letters would seem to suggest otherwise.

It appeared that there was at least one instance where BCCI was, in fact, giving instructions to your firm, CCAH. Would you comment on that?

Mr. Altman. I would be glad to comment on it, sir.

This is not an example where we were receiving instructions. This was an instance where one of the shareholders of First American, the Abu Dhabi Investment Authority, which I might note is regarded by the Federal Reserve as a legitimate shareholder of the company—they are not regarded as a nominee of BCCI—needed for their auditors to have confirmation of their shareholding in First

American and they needed it in a particular format.

Mr. Imam, who was dealing with one of the lawyers at our firm, asked that the confirmation be in the particular format that Ernst and Whinney, the auditors of the Abu Dhabi Investment Authority, had requested. It was kind of a technical, routine matter. It did very accurately reflect the true facts, that is that the Abu Dhabi Investment Authority owned the shares that were set forth therein in the letter that I signed, but this was just a matter of providing the form that Abu Dhabi Investment Authority needed for its auditors and was kind of a routine matter.

Mr. Wylie. It wouldn't have been sufficient for Mr. Imam to

send the letter himself to Ernst and Whinney?

Mr. Altman. Mr. Imam has no ability to confirm who are the shareholders of First American or CCAH. Mr. Imam worked with BCCI and is asking would we examine our shareholder register and confirm for the auditors of the Abu Dhabi Investment Authority that they hold the following shares of stock, which we were pleased to do. And the Federal Reserve confirms that this is a legitimate shareholding.

Mr. Wylle. Mr. Chairman, thank you again for holding these hearings today. I want to thank Mr. Clifford and Mr. Altman, as well as their legal team, who appeared before the committee to give their side of the story. I feel that the testimony we have heard today and have listened to for the last 10 hours and 15 minutes barely scratches the surface, really, concerning BCCI's role with First American, but I do think that Mr. Clifford and Mr. Altman have both handled themselves extremely well as I said a little earlier, and I want to compliment you for that and for your fortitude and also for the fact that you did appear voluntarily.

On April 10, 1991, a former CFO of BCCI London was asked in an interview with Federal investigators if Clifford and Altman knew about BCCI control of First American. His response was they must have known. Clifford and Altman were sophisticated counselors of Mr. Abedi, and they met with Mr. Abedi regularly, how

could they not have known?

I regret to say that that comes fairly close to my observation, but I want to continue to work with the chairman to investigate BCCI's relationship in this country, to see where this all shakes out in the final analysis. I think only by getting to the bottom of this affair can we know what really happened.

I think it was Mr. Orton who observed that we do need to know what happened so that we can ensure that regulators are not de-

ceived on such a massive scale again.

I want to thank you very much for your testimony and indicate that I think you made a good appearance.

Mr. Clifford. Thank you, Mr. Wylie.

Mr. ALTMAN. Thank you.

It is a curious observation for the chief financial officer of BCCI to question why we didn't know something when he indicates he

didn't know it and he was their chief financial officer.

The CHAIRMAN. Gentlemen, thank you very much. You have been most cooperative and helpful to the committee. I know it has been long. This committee is large. You can look at it this way—it is a 52-member committee. It is as if you had appeared before half of the Senate plus two. If you look at it that way, it eases the pain of the appearance.

Thank you very much, gentlemen. We appreciate your help.

Mr. CLIFFORD. Thank you for the courtesy.

Mr. Altman. And for the chance to explain our position on the record.

The CHAIRMAN. The committee will be adjourned until Friday morning in this hearing room at 9:30 a.m.

[Whereupon at 7:20 p.m., the hearing was adjourned, to resume Friday, September 13, 1991, at 9:30 a.m.]

APPENDIX

September 11; 1991

(127)

Opening Statement of Henry B. Gonsales, Chairman Committee on Banking, Finance and Urban Affairs U.S. House of Representatives

Hearing on Bank of Credit and Commerce International (BCCI) Investigation

September 11, 1991

This morning we open the first of a series of hearings on how a racketeering bank--The Bank of Credit and Commerce International--gained a foothold in the United States and how regulators and bank officials failed to detect or understand or report the invasion.

We have long been critical of jurisdictions like Panama, the Cayman Islands and other off-shore countries for their loose banking regulation and their willingness to become havens for outlaw financial entities that fuel drug cartels, tax evasion schemes, and other illegal activities.

Now we find BCCI on our own front steps despite all of our vaunted, expensive and far-reaching regulatory system. The criminal shenanigans of BCCI are still unfolding around the world, but already we know of extensive money laundering schemes, allegations of connections with the infamous Medellin cocaine cartel, charges of massive fraud and involvement with Middle East terrorists.

For many on this Committee, the existence of another foreign bank entity engaged in criminal activity comes as no great surprise. Last year, this Committee--with plenty of vacant seats in the press section--spelled out how an agency of the Banca Nazionale del Lavoro operating in Atlanta, Georgia was able to defraud the U. S. Government and move billions of dollars of goods including military technology into the hands of Saddam Hussein. Banca Nazionale del Lavoro became Baghdad's banker in the U. S. before our regulatory cops at the Federal Reserve could locate Iraq on the map.

In the case of the Bank of Credit and Commerce International, the Federal Reserve would have us believe that BCCI was a stealth banking operation—undetected on the regulators' radar screens. Like the Federal Reserve, our witnesses this morning, Clark Clifford and Robert Altman, profess ignorance about the depth of BCCI's involvement in First American or its holding company, Credit and Commerce American Holdings.

If we accept the stories put forward by the Federal Reserve and Mr. Clifford and Mr. Altman, an icy chill should go through the American public. If U.S. Banks can be so easily invaded by foreign operators, and if the takeovers can be kept secret so successfully, what protections exist in our banking system? What other foreign entities or criminal elements are secretly in control of U.S. Banks at this moment? Obviously, we can't expect the Federal Reserve to know--if its performance in BCCI is an example of its investigative skill.

The role of "hear no evil, see no evil and smell no evil" is not suitable for regulators, powerful law firms or big-time bank executives. The people who occupy these positions are expected to know. It is their responsibility and neither this Committee nor the American public should accept bland statements that "we just didn't know."

The Federal Reserve was conned in 1981 by a group of Middle East investors who we now know were front men for BCCI in the takeover of CCAH, the holding company for First American. During the next decade, the Federal Reserve's gumshoes took it easy, ignoring tips or, at best, asking CCAH and First American for assurances that all was well. Invariably, the answer came back, "No BCCI here," and the Federal Reserve was happy. As in the Salomon case, now much in the news, the attitude was, "Trust me."

The Federal Reserve's lack of vigor is inexcusable. However, it is true that our financial regulatory system does depend on full and truthful reports from banks and their officers, directors and legal counsel.

Our witnesses this morning provided the key assurance to the Federal Reserve in 1981 that the Middle East investors were operating on their own and not on behalf of BCCI.

As the top officials in First American and as legal counsel for the bank, the Clifford-Altman team was in a unique position to know about BCCI's involvement. Apparently some key decisions, such as who was to run First American's affiliate in New York, were made only after consultation with BCCI. And Mr. Altman turned up consistently at international conferences of BCCI insiders in Vienna, London and Luxembourg.

3

If Mr. Clifford and Mr. Altman did not understand BCCI's role in the takeover of First American, they did have an appreciation of the value of BCCI's money.

On three different occasions in 1986, 1987, and 1989, Mr. Clifford and Mr. Altman purchased large blocks of shares of Credit and Commerce American Holdings (CCAH)—financed by \$15 million in lines of credit from BCCI. On March 1, 1988, Clifford sold 3,200 shares and Altman dumped 1,600 shares at the inflated price of \$6,800 per share—three times what they had paid for the shares less than two years earlier. The gross profit for Clifford apparently totaled at least \$11.3 million and for Altman \$5.6 million. And to complete the BCCI money loop, the purchaser—at the \$6,800 per share price—was none other than another BCCI front man.

These lucrative inside stock transactions were not the only insider game that profited these gentlemen. As soon as they assumed the executive chairs at CCAH and First American, legal business started flowing from the bank to their Washington law firm, Clifford and Warnke. We are still trying to determine the exact amount of the fees, but some reports suggest they may have exceeded the stock profits.

Aside from the millions that flowed from the bank to the law firm, this arrangement created the potential for serious conflicts of interest and deprives the bank of ongoing objective legal advice. It is a practice that I have criticized in other financial institutions. Bank officers cannot serve one moment in a decision-making capacity in the bank and in the next moment don their legal caps to give sanction to these same decisions. It is an unsafe and unsound practice regardless of the personalities involved. It is something that the Office of the Comptroller of the Currency and the Federal Reserve Board should have stopped long ago.

With the headlines and the obvious prominence of our witnesses, it will be difficult to keep these hearings on track. But, I hope the Members--on both sides--will be cognizant of this Committee's jurisdiction and the need to develop the facts that will help us prevent another BCCI from walking secretly into U.S. banking. We have a significant section in H.R. 6--reported from this Committee in June--dealing with the regulation of foreign banks. As we move through this testimony, I hope Members will watch

4

carefully for evidence that will support that section and possibly strengthening amendments.

These hearings are called pursuant to the jurisdiction assigned the Banking, Finance and Urban Affairs Committee in Rule 10 of the Rules of the House of Representatives.

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1 1

Gary T. Ackerman Congress of the United States 7th District, New York

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TASK FORCE ON FOREIGN RELATIONS

Mr. Chairman, I want to thank you for scheduling this hearing today to examine the takeover of First American Bankshares Inc. by the scandal-scarred Bank of Credit and Commerce International (BCCI).

BCCI is now viewed as an international crime cartel protected by a worldwide network of prominent officials. Like my colleagues on the Committee, I am anxious to understand how BCCI was able to orchestrate the long list of fraudulent activities that have been alleged. How did the largest bank robbery in world history go unnoticed while bilking foreign depositors out of billions of dollars, laundering money for the Colombian cocaine cartel as well as former Panamanian President Manuel Noriega, losing large amounts on questionable financial arrangements, and secretly take control of First American Bankshares Inc.?

Most disturbing is recent information suggesting that Federal authorities were aware of a pattern of widespread criminal activity involving SCCI, but failed to take action. Federal law enforcement agencies repeatedly failed to coordinate actions or share information. Did the CTA have an interest in confining the inquiry? Why didn't anyone do anything about BCCI?

I do appreciate Mr. Clark Clifford and Mr. Nobert Altman co.d.no here today to help answer the many questions that remain about how ECCI was citle to secretly take control of First American. I do believe that people should remain innocent until proven guilty, and look forward to their testimony so that we can understand how BCCI succeeded in gaining improper control over First American and how many other U.S. banks may be secretly owned by BCCI.

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STATEMENT OF THE HONORABLE FRANK ANNUNZIO AT BANKING COMMITTEE HEARINGS ON BCCI WEDNESDAY, SEPTEMBER 11, 1991

Mr. Chairman, I want to congratulate you for calling these hearings today. BCCI has a notorious history as a money laundering financial institution.

Almost two years ago, BCCI entered into a plea agreement regarding its money laundering activities in the United States. BCCI agreed to forfeit \$14.8 million in assets which had already been seized, and to agree to cooperate in the prosecution of various low-ranking BCCI employees. Other than that, BCCI suffered no penalty as a result of its conviction.

I was shocked by the liberal terms of the guilty plea. On January 23, 1990, I introduced legislation to provide for the death penalty for money laundering financial institutions. That legislation passed the House last year by a vote of 406 to 0, but the Senate failed to act upon the bill. At the end of the session last year, the House unanimously passed another similar money laundering bill I introduced, but the Senate again failed to act.

I reintroduced similar legislation this year, not only providing for the death penalty for money laundering financial institutions, but giving the Federal Reserve explicit authority to shut down the operations of money laundering foreign banks, branches and agencies in this country. This legislation passed the House on June 11 by the identical 406 to 0 margin by which last year's bill passed. Still, the Senate has not acted on money laundering legislation.

Mr. Chairman, in the past two years, the House has voted by a combined vote of 812 to 0 for legislation providing the death penalty for money laundering banks. Three times the House has unanimously passed money laundering legislation to shut down the BCCIs of the world.

Still, the Senate delays. It has included a money laundering title in its bank reform bill, but we all know that the fate of that bill is cloudy. Law enforcement will not benefit by having money laundering improvements delayed by inclusion in controversial bank reform legislation.

I hope that the Senate will realize that this country needs stronger money laundering laws now, and will act promptly to take up the Annunzio death penalty for money laundering banks legislation. Maybe these hearings will send a message to our colleagues in the other body.

STATEMENT OF CONGRESSMAN JOHN W. COX, JR. HEARING ON BCCI SEPTEMBER 11, 1991

Mr. Chairman, I commend you for holding hearings on the Bank of Credit and Commerce International (BCCI). While pulling the pieces of the investigation together proves to be a complicated task, doing so reveals the many weaknesses of our regulatory system. On both the domestic and international fronts, a great deal of fraud and abuse has been intertwined with daily banking activities.

BCCI, which has been nicknamed the "Bank of Crooks and Criminals", has been linked with such illegal activities as money laundering, organized crime, and South and Central American cocaine cartels.

According to a report written by Price Waterhouse, BCCI's activities were "one of the most complex deceptions in banking history," documenting losses of almost \$850 million that were hidden by misappropriated deposits and false loans between the years of 1977 and 1985.

The BCCI scandal hits remarkably close to home today as we hear the testimony of our witnesses, Clark Clifford and Robert Altman. Clifford and Altman were the Chairman and President of the U.S. bank, First American Bankshares. This bank was purchased by BCCI, seemingly unknown to Clifford and Altman. BCCI, however, owned First American the entire time Clifford and Altman ran the bank. In addition, Clifford and Altman's law firm, Clifford & Warnke, has represented both BCCI and First American for a number of years.

As the story unfolds, there is tremendous conflict of interest involved in the chapters. Whether or not Clifford and Altman were aware of BCCI's ownership of First American, questions can be raised about the efficacy of the independent legal counsel of a bank also having control of the bank's operations.

In addition, this committee must take a close look at the role the Federal Reserve played, or failed to play, with respect to BCCI's operations. For 13 years BCCI controlled the largest bank in Washington. The Federal Reserve was not aware of this fact. The Federal Reserve, however, is charged with the responsibility of being the primary regulator of foreign banks.

Despite the reputation BCCI has achieved for international criminal activities, and its significant ownership of U.S. banks, there were no BCCI records kept in the United States. For this reason, no documentation of First American's ownership existed in this country. Furthermore, there was never a single BCCI supervisor in the United States, despite the number of banks BCCI owns in this country.

The BCCI scandal has magnified a few of the severe flaws in our banks' regulatory system, at both the domestic and international levels. I am hopeful that this series of hearings on BCCI will prove to be informative, and through it, we can nail down some real remedies to prevent such a scandal from recurring.

Thank you, Mr. Chairman.

for the record

Opening Statement of the
Honorable Carroll Hubbard
Hearing on the Bank of Credit and Commerce International (BCCI)
and First American Bankshares Scandal
House Committee on Banking, Finance and Urban Affairs
September 11, 1991
9:00 a.m.

I will be brief, Mr. Chairman. I commend you for holding this important series of hearings on the Bank of Credit and Commerce International, better known as BCCI.

BCCI has engaged in a long list of alleged wrongdoings. It has reportedly defrauded customers of billions of dollars, bribed public officials, made false representations about its financial condition and ownership, and laundered money for drug dealers, arms dealers and organized crime, to name just a few. If these allegations are true, then BCCI is perhaps the greatest international outlaw in financial history.

Indeed, the BCCI scandal is unfolding like a suspense novel, filled with international intrigue, famous personalities, and allegations of crimes at the highest corporate and governmental levels. In trying to piece together what exactly happened, BCCI is becoming the "Watergate of International Finance" -- a whodone-it in which we find ourselves asking "who knew what, and when did they know it?"

Mr. Chairman, I applaud the Committee's efforts to get to the bottom of this controversy, and I am confident that we will succeed. Of the many issues about BCCI that need to be addressed, one stands out in my mind -- if, as it has been alleged, wealthy foreigners can confound our bank regulators, finance illicit drug traffickers, and obtain political influence,

then I believe the American people deserve an explanation as to how these things can happen. Only then can we take steps to make sure it doesn't happen again.

Opening Statement, Congressman Gerald D. Kleczka BCCI Hearing September 11, 1991

I commend you, Mr. Chairman, for holding these hearings. Your determination brought about the Lincoln S&L hearings. Under your leadership, this Committee will give the American people the facts about yet another story others feared to tell.

When a congressional committee must bring the facts to light in a case like this, our regulatory system has failed. Matters as complicated as the use of "straw buyers" by foreign interests to purchase an American bank are best dealt with by banking regulators, not by a committee.

A handful of Committee staffers must now sift through more than 100,000 documents to piece together exactly what happened with BCCI. They are doing a job others should have done long, long ago. Legislators should legislate. Regulators should regulate. And the Justice Department should litigate.

That old fashioned idea raises questions which must be answered. Where was the Justice Department and Attorney General Thornburgh? We know where Mr. Thornburgh is today--running for Senate in Pennsylvania. Where was he when we needed him to enforce the law in Washington?

Where were the banking regulators? If bank regulators are not up to regulating, Congress should not enact legislation to give banks broad, new and risky powers. If regulators have too much on their plates today, they don't need second helpings.

I hope this scandal puts to rest an idea fashionable in the 1980s that deregulation cures anything that ails banks. Banking deregulation is an idea whose time has come--and gone. These are the 1990s--the decade when we pay the price for the lax regulation of the 1980s. Before banks get new powers, we should deal with existing problems.

STATEMENT OF CONGRESSMAN AL McCANDLESS September 11, 1991

Mr. Chairman, these hearings will begin to untangle a web of lies, deceit, and criminal acts.

Our purpose -- even though we may be tempted -- is not to try the case or convict the guilty. Our purpose is to determine how our laws and regulations were evaded.

In our effort to determine the facts, we are going to have to ask some tough questions. AND WE MUST BE PREPARED TO ALLOW THE CHIPS TO FALL WHERE THEY MAY.

We must examine the involvement of some very prominent citizens, many with strong political connections. We need to know who did what, and when did they do it.

We must also examine whether political connections were used to further the BCCI scheme.

The actions and inactions of the regulators must also be explored. What could or should they have done to discover this scheme earlier? Are our laws strong enough to prevent something like this from happening again?

These will be difficult, but very important hearings. I yield back the balance of $\boldsymbol{m}\boldsymbol{y}$ time.

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JAMES P. MORAN

FRESHMAN WHIS

WASHINGTON OFFICE 1523 LONGWORTH HOUSE OFFICE BUILDING WASHINGTON, DC 20515 (202) 225-4376

The Honorable James P. Moran Statement on BCCI Hearing September 11, 1991

MR. CHAIRMAN, I ALSO WANTED TO EXPRESS MY APPRECIATION FOR YOUR THOUGHTFULNESS IN CONDUCTING THIS HEARING.

AS TODAY'S HEARING WILL CONFIRM, THE BANK OF CREDIT AND COMMERCE INTERNATIONAL WAS ENGAGED IN MONEY LAUNDERING FOR DRUG KINGPINS, INCLUDING GENERAL MANUEL NORIEGA, COMMITTED WHOLESALE FRAUD, FRONTED ACCOUNTS FOR KNOWN TERRORISTS, PAID OFF PROSECUTION WITNESSES AND BLATANTLY VIOLATED U.S. BANKING REGULATIONS FOR CLOSE TO TEN YEARS.

AGENCIES OF THE U.S GOVERNMENT WERE AWARE OF THESE CRIMINAL ACTIVITIES AND CHOSE TO KEEP SILENT OR AT LEAST NOT PROSECUTE.

ACCORDING TO A REPORT BY THE ACCOUNTING FIRM OF PRICE WATERHOUSE, BCCI "MAY NEVER HAVE BEEN PROFITABLE DURING ITS ENTIRE HISTORY."

IN FACT FROM A FINANCIAL STANDPOINT, THE ONLY WAY BCCI SEEMS TO HAVE SURVIVED WAS BY ENGAGING IN BRIBERY, FRAUD, MONEY LAUNDERING AND INFLUENCE PEDDLING.

SO LONG AS NO ONE PROBED TOO DEEP, BCCI WAS ABLE TO COVER ITS SHAKY BANK OPERATIONS BY MANIPULATING THE ACCOUNTS OF ITS CUSTOMERS' DEPOSITS.

MR. CHAIRMAN, THIS HEARING SERVES AN IMPORTANT PURPOSE.

WE MUST FIND OUT WHY NO ONE WAS WILLING TO PROBE DEEPER; AND WHY THOSE WHO TRIED WERE DISCOURAGED FROM DOING SO.

WE MUST DETERMINE WHAT FLAWS THERE ARE IN OUR REGULATORY SYSTEM, AND MAKE THE NECESSARY CHANGES TO PREVENT THIS FROM HAPPENING AGAIN.

MR. CHAIRMAN, WHILE WE SEEK TO FIND THE TRUTH, I WOULD ASK THAT WE TAKE ONE FINAL FACTOR INTO CONSIDERATION.

IN EARLY JUNE, BANK REGULATORS IN SEVERAL COUNTRIES SEIZED THE BANK, FROZE ITS ASSETS AND PROMISED TO BEGIN LIQUIDATING THE INSTITUTION AND ITS OPERATIONS IN MORE THAN 70 COUNTRIES.

THE SEIZURE GENERATED MASSIVE PANIC AS DEPOSITORS IN EUROPE AND ASIA ATTEMPTED TO COLLECT THEIR MONEY.

HAD THERE BEEN A BANK NAMED BCCI IN THIS COUNTRY, PERHAPS WE WOULD HAVE SEEN A REPEAT OF WHAT OCCURRED IN EUROPE AND ASIA.

WHILE BCCI HAD ONLY A LIMITED PHYSICAL PRESENCE HERE IN THE UNITED STATES, IT DID ACQUIRE SECRET AND INDIRECT CONTROL OF FIRST AMERICAN'S HOLDING COMPANY STOCK.

I AM CONCERNED THAT AS WE INVESTIGATE POSSIBLE LINKS BETWEEN BCCI AND FIRST AMERICAN OR ANY OTHER U.S. FINANCIAL INSTITUTION, WE DO SO IN A RESPONSIBLE MANNER THAT DOES NOT GENERATE ANXIETY AMONG THE DEPOSITORS AT THESE INSTITUTIONS.

IT SHOULD BE STATED FOR THE RECORD THAT TO DATE, THERE HAS BEEN NO EVIDENCE THAT FIRST AMERICAN WAS INVOLVED IN ANY OF BCCI'S ILLEGAL ACTIVITIES.

THE PUBLIC SHOULD KNOW THAT THEIR DEPOSITS IN FIRST AMERICAN ARE SAFE AND PROTECTED BY THE FEDERAL GOVERNMENT.

THE ACTIONS TAKEN TO DATE BY THE FEDERAL REGULATORY AGENCIES AND BY FOREIGN GOVERNMENTS HAVE NOT AFFECTED THE OPERATIONS OF BANKS OWNED BY FIRST AMERICAN BANKSHARES AND FIRST AMERICAN BANK IN PARTICULAR.

I WOULD URGE THE MEDIA COVERING THIS HEARING TO PROVIDE THE ASSURANCES THAT PEOPLE'S DEPOSITS IN THESE BANKS ARE SAFE.

THANK YOU MR. CHAIRMAN.

STATEMENT OF

THE HOMORABLE MARY ROSE CAKAR

SEPTEMBER 11, 1991

MR. CHAIRMAN:

I WANT TO COMMEND YOU FOR HOLDING THIS HEARING. CLEARLY, THE SUBJECT OF THE BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI) AND ITS OPERATIONS IS OF CRITICAL CONCERN TO THIS COMMITTEE AND TO OUR COUNTRY.

BCCI HAS DOMINATED THE HEADLINES OF THE MEDIA FOR MANY MONTHS.

THE IMPLICATIONS AND COMPLICATIONS RELATED TO THIS CASE ARE ENORMOUS. SIMILARLY, THE QUESTIONS EMANATING FROM BCCI'S OPERATIONS ARE EQUALLY PROFOUND AND NEED TO BE FULLY UNDERSTOOD BY THIS COMMITTEE AND THE AMERICAN PEOPLE. IN PARTICULAR, I BELIEVE THERE ARE SOME KEY QUESTIONS WE MUST FOCUS UPON IN ORDER TO DRAW THE MOST IMPORTANT LESSONS FROM THIS MATTER.

FOR EXAMPLE, A CENTRAL ASPECT OF THE COMMITTEE'S INVESTIGATION INVOLVES THE QUESTIONS OF THE RESPONSIBILITIES OF BANK OFFICIALS. TODAY'S WITNESSES ARE BANK OFFICIALS INVOLVED IN DECISIONS OF POLICY AND OPERATIONS OF A PROMINENT WASHINGTON BANK. I BELIEVE THAT MANAGEMENT ACCOUNTABILITY IS IMPORTANT IN ANY ORGANIZATION. HOWEVER, ACCOUNTABILITY WITHIN A FEDERALLY INSURED BANK IS ESPECIALLY IMPORTANT BECAUSE TAXPAYER MONEY IS INVOLVED. CONSEQUENTLY, THE TESTIMONIES OF TODAY'S WITNESSES ARE AN IMPORTANT CONTRIBUTION TO UNDERSTANDING THE LESSONS OF BCCI.

ANOTHER ASPECT OF THE BCCI CASE INVOLVES THE LACK OF REGULATION OVER BCCI'S ACTIONS WITHIN THE UNITED STATES. IT APPEARS THAT THE FEDERAL RESERVE HAD VIRTUALLY NO INFORMATION ABOUT THE ILLEGAL ACTIVITIES OF BCCI AND ITS TAKE-OVER OF FIRST AMERICAN BANKSHARES OF WASHINGTON, DC. OR BCCI'S ACTIVITIES WITHIN OTHER U.S. BANKS. APPARENTLY, OTHER UNITED STATES AGENCIES WHICH HAD KNOWLEDGE OF BCCI'S ACTIVITIES IN THE U.S. DID NOT SHARE THEIR INFORMATION WITH THE FED. REGARDLESS OF THIS APPARENT FAILURE OF THE AGENCIES, THE FACT REMAINS THAT THE ILLEGAL ACTIVITIES OF BCCI WITHIN OUR BORDERS PROGRESSED UNDETECTED AND UNREGULATED FOR A DECADE. I FIND THIS SITUATION TOTALLY UNACCEPTABLE. AS A RESULT, I BELIEVE WE MUST ACT TO PREVENT SUCH AN EVENT FROM OCCURRING AGAIN.

I FEEL ONE FINAL WORD MUST BE SAID: A DISTINGUISHING FEATURE OF THIS INVESTIGATION IS THE NUMBER OF INDIVIDUALS OF VARIOUS AGENCIES AND COUNTRIES INVOLVED. IT SEEMS THAT ALMOST EVERY DAY MORE NAMES AND COUNTRIES BECOME ENTANGLED IN BCCI'S MESS. HOWEVER, I BELIEVE IT IS IMPORTANT TO "LET THE CHIPS FALL WHERE THEY MAY". THIS INVESTIGATION SHOULD PROCEED IN A WAY THAT MOST EFFECTIVELY FINDS THE TRUTH. WE MUST UNDERSTAND ALL OF THE DETAILS OF BCCI'S OPERATIONS IN ORDER TO AVOID THIS PROBLEM IN THE FUTURE.

AGAIN, I WANT TO COMMEND YOU, CHAIRMAN GONZALEZ, FOR HOLDING THIS VERY IMPORTANT HEARING TODAY.

NEWS

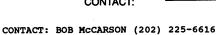
CHARLES E. SCHUMER

10th Congressional District, N.Y.

September 11, 1991

FOR RELEASE:

CONTACT:



STATEMENT OF REP. CHARLES SCHUMER, D-NY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
September 11, 1991

MR. CHAIRMAN, I WOULD FIRST LIKE TO CONGRATULATE YOU AND THE COMMITTEE STAFF FOR PUTTING TOGETHER THIS IMPORTANT HEARING. THE BCCI SCANDAL IS TRULY THE MOTHER OF ALL BANK SWINDLES. COMPLETING THIS EXHAUSTIVE REVIEW SO QUICKLY WAS NO SMALL FEAT.

WHILE THIS COMMITTEE HAS BEEN EXAMINING THE ACTIONS OF BANK

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REGULATORS, MY CRIME SUBCOMMITTEE HAS BEEN REVIEWING THE ROLE PLAYED BY
FEDERAL LAW ENFORCEMENT AGENCIES IN IDENTIFYING AND INVESTIGATING
BCCI. SOME DISTURBING SIMILARITIES ARE APPARENT. BANK REGULATORS,
LIKE FEDERAL LAW ENFORCEMENT AGENCIES, FELL DOWN ON THE JOB AND FAILED
TO AGGRESSIVELY PURSUE OBVIOUS EVIDENCE. OVER THE COMING MONTHS, I
HOPE WE CAN DISCOVER WHY BCCI WASN'T A HIGHER PRIORITY IN THE U.S.
GOVERNMENT, UNTIL IT WAS TOO LATE.

WHAT THE REGULATORS KNEW AND WHEN THEY KNEW IT IS A CRUCIAL PART

WHAT THE REGULATORS KNEW AND WHEN THEY KNEW IT IS A CRUCIAL PART OF THIS INQUIRY. EQUALLY IMPORTANT, HOWEVER, AND THE MAIN QUESTION BEFORE US TODAY IS WHETHER MR. ALTMAN AND MR. CLIFFORD KNEW ABOUT BCCI'S RELATIONSHIP WITH FIRST AMERICAN AND ITS PYRAMID OF HOLDING COMPANIES.

MR. ALTMAN AND MR. CLIFFORD ARE ASKING US TO BELIEVE THAT WHEN THEIR HOUSE WAS ON FIRE THEY DIDN'T SMELL THE SMOKE, FEEL THE HEAT OR HEAR THE ALARMS.

THEY CLAIM THEY WERE DUPED. I HAVE FOLLOWED THIS SCANDAL VERY CLOSELY. I HAVE EXAMINED THE SUBSTANTIAL AND STEADY STREAM OF EVIDENCE WHICH FLOWED THROUGH THE GOVERNMENT THROUGHOUT THE 1980S. IN LIGHT OF THIS AND THE CLOSE BUSINESS AND LAWYER-CLIENT RELATIONSHIPS BETWEEN BCCI'S SHAREHOLDERS, ITS OFFICIALS AND MR. ALTMAN AND MR. CLIFFORD, I FIND IT HARD TO BELIEVE THAT THEY DIDN'T KNOW MORE ABOUT BCCI'S INTERESTS IN FIRST AMERICAN THAN THEY ARE ADMITTING. GIVEN THE STRONG INDICATIONS THAT FEDERAL AGENCIES HAD AS EARLY AS 1984 OF WIDESPREAD CRIMINAL ACTIVITY BY BCCI, I FIND IT EQUALLY DIFFICULT TO ACCEPT THAT OUR TWO WITNESSES DIDN'T EVEN QUESTION THE MOTIVATION AND ACTIVITIES OF THEIR BUSINESS ASSOCIATES. THAT ASSUMES A HIGH DEGREE OF NAIVETE AND DISINTEREST THAT IS OUT OF CHARACTER FOR MEN WITH SUCH BUSINESS ACUMEN. THEIR EXPLANATION STRAINS CREDULITY TO ITS BREAKING POINT. MR. CHAIRMAN, THESE ARE TWO MEN OF GREAT ACCOMPLISHMENT AND INTEGRITY. I WOULD TRULY LIKE TO BELIEVE THEIR VERSION OF EVENTS. I

MR. CHAIRMAN, THESE ARE TWO MEN OF GREAT ACCOMPLISHMENT AND INTEGRITY. I WOULD TRULY LIKE TO BELIEVE THEIR VERSION OF EVENTS. I HOPE THEIR APPEARANCE TODAY SHEDS MORE FAVORABLE LIGHT ON WHAT UNTIL NOW ARE RATHER DUBIOUS STORIES.

OPENING STATEMENT

THE HONORABLE ESTEBAN E. TORRES

HEARING ON BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI)

HOUSE BANKING COMMITTEE

SEPTEMBER 11, 1991

Mr. Chairman, I want to commend you for holding these vitally important hearings on the investigation of the Bank of Credit and Commerce International. I know that staff has spent considerable time with their exhaustive research into the operations, ownership, and numerous interrelationships that have come to light pursuant to their review of documents subpoensed by this Committee.

It is important to note that there is a sound legislative basis for these hearings. We have pending legislation before this Committee dealing directly with the level of involvement and regulation of foreign banks in this country. We need answers to questions about the role of the Federal Reserve in enforcing current laws in this

regard as well as what additional tools might be necessary to do
the job better. We must not let another BCCI happen! Ultimately,
it is clear that we need better coordination and regulation of
financial entities on the international, federal, and state levels.

I have a particular interest in the revelations uncovered in the BCCI case regarding the use of our domestic banking system in international money laundering schemes. Specifically, how were U.S. banks used, how were the schemes uncovered, and how can we prevent any further abuse. Are the anti-money laundering provisions approved by the House earlier this year and currently included in the Senate bank reform bill sufficient to do the job? Perhaps we need to take another look.

Mr. Chairman, the implications of this BCCI investigation are farreaching indeed. I am anxious to hear the testimony of our two witnesses this morning as well as the representatives of the Federal Reserve who will be here on Friday. It is unfortunate that it took a scandal of the size and scope of BCCI to focus our collective attention on the regulatory loopholes that now appear so evident.

Again, I want to commend Chairman Gonzalez for holding these hearings. I yield back the balance of my time.

OPENING STATEMENT OF CONGRESSWOMAN MAXINE WATERS

HEARING ON BCCI

Wednesday, September 11, 1991

Mr. Chairman, so much has been said about the case of BCCI. I think it is apparent that we have only begun to learn the many sordid details of this latest financial industry scandal. I commend you for holding this set of hearings. I am sure this Committee will be spending many hours exploring the case of BCCI, and hopefully, developing ways to prevent their recurrence.

As we know, there have been many legal charges made against the players in this scandal. This is appropriate. It is also a matter for the courts. As policymakers, our job is to develop laws that do not presuppose good intentions. Particularly in the area of banking, the decade of the 1980s has seen one disclosure of fraud, thievery and abuse after another.

So while we follow the legal proceedings of this case, we are reminded again that the only way to stop illegal and fraudulent activity is through tough, aggressive laws and regulations which govern the

conduct of financial institutions.

There are several disconcerting aspects of this country's regulatory policies which might have contributed to the breadth and duration of the BCCI scandal. The most glaring deficiencies, from the perspective of federal oversight, seem to be the questionable judgement exercised by the Federal Reserve Board in allowing BCCI to operate in this country, and the tempered response by the U.S. Justice Department as they received information strongly suggesting illegal activity by BCCI.

In addition, the IRS, the Drug Enforcement Agency, the CIA and the Treasury Department all had information implicating BCCI in wrongdoing.

Mr. Chairman, we hear a lot about over-regulation in this room. I've only been here since January, but we're bailing out the savings and loan industry because of lax regulation, same for the banks. Now it appears that the Reagan-Bush Administration didn't pursue BCCI with adequate vigor.

It's hard for me to sit here and believe that we need to lay off the banks, that our regulation is burdensome. It's not even adequate. In the past decade at least, we have severely tilted toward the side of under-regulation of the financial service sector. The cost to the taxpayers, when it's all over and counted, could exceed one trillion dollars.

These revelations are all very amazing. But one thing ought to be clear by now. This Congress, and this government, must get control of the activities of the financial service industry. The costs of not doing so are too great.

I am horrified by the activities surrounding BCCI. But, I am also horrified that our laws can be ignored and abused and unenforced with such ease and deliberation.

I hope that this Committee continues to look very closely at the activities of BCCI. I look forward to hearing the testimony of our two distinguished panelists today to hear their explanations for what happened -- who, why, and how they trusted their clients.

But ultimately, we need laws, and public officials willing to enforce those laws, that will end the type of abuse that has become commonplace in the financial industry. I hope these hearings will bring us closer to meeting this goal. Thank you, Mr. Chairman.

STATEMENT OF HOM. CHALMERS P. WYLIE BCCI HEARINGS SEPTEMBER 11, 1991

Thank you, Mr. Chairman.

I want to commend you for holding these hearings today and applaud you and your staff for the cooperation you have exhibited during the BCCI investigation to develop any and all information surrounding this scandal. I also want to commend the federal and state agencies which have been most cooperative with the staff during the course of the Committee's investigation in providing information.

I originally called for an investigation of BCCI at an April 24th Committee hearing and we both agreed at that time to let no stone go unturned in examining the activities of this criminal institution. This has truly been a <u>bi-partisan</u> effort and I believe that we begin today to let the chips fall where they may in exploring the causes behind the BCCI scandal.

The BCCI scandal is one of the greatest worldwide financial scandals that has ever occurred. I have been continually startled by the new revelations concerning this renegade foreign bank. I have been particularly startled by stories of the links that BCCI had in this country. With our witnesses today, Mr. Clifford and Mr. Altman, this Committee begins its inquiry into BCCI's links in this country and the regulators' responses.

Many of us have read and heard in painstaking detail the affairs of First American Bank and its relationship to BCCI. I hope our Committee investigation will provide much more detail as to that relationship. I must say that much of the information has been new and surprising to me. The evidence appears overwhelming that Mr. Clifford and Mr. Altman almost certainly had to be aware that First American maintained an extensive relationship with BCCI.

The question we have to answer here is whether these gentlemen were "amiable dunces" or were they sophisticated "financial kingpins."

I believe that it is important for this Committee to evaluate their knowledge and determine whether they intentionally deceived the regulatory system. Only then can we judge what legislative solutions may be appropriate.

As this Committee continues its consideration of additional funding for the RTC and BIF, it is clear that we cannot tolerate a system that permits bank directors to deceive the regulators. Even if you accept their arguments that they had no knowledge of any BCCI link to First American, should Mr. Clifford and Mr. Altman have a duty to investigate possible wrongdoing at their

institution. Is it possible Clifford and Altman knew but ignored their duties to such an extent that it appears to be scandalous. Before we authorize more funds for federal deposit insurance our duty is to be sure that the regulators have the necessary tools to deal with malfeasance, misfeasance or nonfeasance of directors.

Finally, I would like to re-affirm my strong support for the legislation concerning the supervision of foreign banks that the Chairman and I introduced. This Committee reported that legislation as part of its consideration of H.R. 6, the Deposit Insurance Reform bill. H.R. 6 would provide for cooperative regulation of international institutions such as BCCI. The FED never learned concretely about First American's links to BCCI until they obtained documents from Abu Dhabi. In regulating foreign institutions our regulators need greater powers and I believe H.R. 6 is a necessary first step.

Thank you again, Mr. Chairman, and I look forward to hearing the testimony today.

STATEMENT OF CLARK M. CLIFFORD AND ROBERT A. ALTMAN BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, UNITED STATES HOUSE OF REPRESENTATIVES

September 11, 1991

STATEMENT OF CLARK M. CLIFFORD AND ROBERT A. ALTMAN BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, UNITED STATES HOUSE OF REPRESENTATIVES

Chairman Gonzalez, Mr. Wylie, Members of the Committee:

We are pleased to appear before the House Banking Committee today and welcome the opportunity to discuss in this public forum our knowledge and perspective of the facts, circumstances, and allegations surrounding First American Bankshares and the Bank of Credit and Commerce International ("BCCI").

We submit this testimony as our joint statement. Our testimony necessarily concerns events going back many years and reflects our respective recollections of these matters.

We are, of course, aware of the widely reported allegations that BCCI has engaged in systematic fraudulent practices worldwide, and are familiar with the charge that BCCI may secretly -- and illegally -- have acquired a substantial stock interest in First American. In reviewing these matters, there is a natural tendency to view the events of yesterday in light of information available only today. We shall attempt to present the facts and circumstances as they were known to us at the

time the events were occurring, so that a fair and objective review of the issues is possible.

We are proud of our reputations for integrity -- reputations which we established over many years.

We therefore appreciate the chance to appear in this forum and, openly and publicly, attempt to set the record straight.

We are comfortable in the knowledge that this Committee and the American people can now hear from us directly, and reach their own conclusions about this entire affair. We intend to be candid and direct. We submit that when we conclude our testimony, the following fundamental conclusions will be inescapable:

- 1. Honest Operation. First American -- the banking organization we headed for over nine years -- was operated honestly, ethically and successfully. Whatever may have happened at BCCI -- and those facts are far from clear -- the record establishes, and comprehensive audits confirm, that First American under our leadership had:
 - No financial improprieties
 - No fraudulent lending practices
 - No account manipulations
 - No money laundering
 - No lavish executive perquisites

- No lack of regulatory supervision
- No U.S. taxpayer bailout
- No depositors that ever lost a cent

 One representative of the Federal Reserve Board has recently testified before the Subcommittee on Consumer and
 Regulatory Affairs of the Senate Committee on Banking,
 Housing, and Urban Affairs that the Board has "not had
 one single report" of involvement of BCCI with any First
 American subsidiary bank that has been to the detriment
 of First American.1

It has, after all, been the banking operations of First American for which we have been responsible all these years, and we would welcome an examination of our record. This decade of honest, reputable banking at First American refutes any allegation that First American was controlled by BCCI.

2. American Management and Control. First
American has been managed and controlled by prominent
American Boards of Directors and experienced American
bankers — in keeping with express commitments we made to
bank regulators. Together with final responsibility for
the Company, the ultimate management authority at First
American was reposed by the shareholders in Clark Clifford as Chairman. At no time did First American receive

instructions or directives from BCCI regarding First
American's business decisions. At no time did BCCI control First American's operations. The evidence is overwhelming that the two companies had totally different -- indeed incompatible -- operating policies and procedures, strategic concepts, data processing and bank support functions, staffing and administrative programs, customer bases, and controls and systems. The two organizations did not share a common corporate philosophy or culture.

3. Financial Record. The administration of First American during our tenure was successful. Under our direction, a scattered group of local banks in various markets was transformed into a major, dynamic financial institution. The Company's assets increased dramatically, from approximately \$2.2 billion to over \$11 billion. This growth was accompanied by similar increases in deposits (relying on stable core deposits, not "purchased" money). During this same period, profits quadrupled. Last year, with the precipitous decline in real estate values and the resulting need to build loan reserves, First American reported an operating loss (as did many banks in the region). Despite that setback, First American remains the uniquely valuable franchise that we

envisioned with an excellent future. It employs over 6,000 people and offers first rate banking services.

Our overriding objective was always to ensure that First American was a strong and stable financial institution that enjoyed the full confidence of the public. We believe we succeeded in that objective, and are proud of our accomplishments over nearly a decade of service to the Company and the community.

- 4. Ownership. At no time prior to the recent allegations did we become aware of any secret ownership of First American stock by BCCI. Despite the review of reams of BCCI documents by investigators, including BCCI's so-called "secret" files, there is no evidence that establishes we knew BCCI illegally owned any First American stock. And there are volumes of documents -- correspondence, proxies, share transfer deeds, letters of waiver and acceptance, offering memoranda and Board minutes -- which clearly show that we have operated in the belief that the Middle Eastern investors owned First American.
- 5. Shareholder Representations. Whatever the truth is relating to BCCI's secret ownership of First American stock -- and that picture remains murky -- we and other counsel made every reasonable effort to ensure

that the representations made to bank regulators in 1980-81 in connection with the proposed acquisition of First American were accurate. Three prominent law firms worked actively together during the regulatory process, and everyone involved at each of these firms certainly believed the information being presented was correct. We submit it is inconceivable that these three law firms conspired to mislead regulators for these clients.

Regulatory Proceedings. Descriptions of the 1981 Federal Reserve proceedings, which have suggested that regulatory approvals were based on some general assurances from Clark Clifford that the deal seemed "okay," are contrary to the clear record. The 1981 federal regulatory approvals were based on the merits of that application, as reflected in a voluminous administrative record. Moreover, there were extensive, independent investigations -- inquiries in which we were not involved -- where various federal agencies assisted the federal and state bank regulators. Information thus was obtained from the State Department, the Commerce Department, the FBI, the CIA and the Middle East specialists of several leading New York banks -- which confirmed information in the application and presented no proper basis for objecting to the proposed acquisition.

As Alan R. Cohen, Acting Superintendent of the State of New York Banking Department, wrote to the late Representative Benjamin Rosenthal, then Chairman of the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations: none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary, all the information we received indicated that the investors were prestigious and reputable people." (Letter from Alan R. Cohen to Rep. Benjamin Rosenthal, dated October 12, 1982; appended hereto as Attachment A). This view was echoed by Henry C. Wallich, then a Member of the Federal Reserve Board of Governors, during his September 1982 testimony before Chairman Rosenthal's Subcommittee, in which he described the investigation conducted by the Federal Reserve to verify the character, integrity, and financial resources of the investors. A copy of Mr. Wallich's testimony is appended hereto as Attachment B. In short, after prolonged and exacting scrutiny, the regulators reached the same conclusion that we did -- that the investors were reputable, wealthy individuals who were buying the stock as personal investments.

We believe these points -- overlooked or at odds with much of the media coverage to date -- are compelling. With this brief introduction, we shall now present the history of our involvement with First American and then address certain of the basic issues that have been raised.

BACKGROUND

Our initial involvement with BCCI dates back to late 1977, when we were introduced to Mr. Agha Hasan Abedi, the president and founder of BCCI. Mr. T. Bertram Lance, former Director of the Office of Management and Budget, had been asked by Mr. Abedi to serve as a consultant on investment opportunities in the United States. During subsequent meetings with Mr. Abedi in early 1978, we learned that BCCI served as the banker and investment advisor to a number of wealthy Middle Eastern rulers and businessmen. Without our involvement or advice, four of these investors had purchased stock in an American bank holding company called Financial General Bankshares ("FGB"), the predecessor to First American, without filing certain disclosures with the Securities and Exchange Commission ("SEC"). The SEC investigated these transactions, and the management of FGB, concerned about a possible takeover, filed suit against the Arab investors,

BCCI, Mr. Abedi and others. We were retained to represent certain of these defendants. The highly regarded New York law firm of Wachtell, Lipton, Rosen & Katz also was retained, at our suggestion, and served as co-counsel throughout these proceedings for the next four years.

BCCI and its founder, Mr. Abedi, then were favorable, and indeed impressive. When we first came to know Mr. Abedi, available information suggested that BCCI was a legitimate financial institution which was associated with people and entities of standing and repute. Mr. Abedi himself was described in 1977 by The Economist, a leading British publication, as "a highly regarded banker." The Economist noted in that article that the Bank of England was "prepared to vouch for him." The Washington Star in 1978 similarly reported that BCCI was run by "men who have sound reputations as conservative bankers." Based on our initial meetings, we personally found Mr. Abedi to be dignified, modest and intelligent.

BCCI, the institution Mr. Abedi founded in 1972, likewise enjoyed respectability. It was notable that Bank of America was a joint venture partner in BCCI, owning 30 percent of its shares. 5 The other investors in BCCI included "some of the most respected names in the

Middle East and representatives of most of the ruling families. "6 BCCI's annual audited financial statements indicated that BCCI's banking operations were sound and proper.

BCCI maintained correspondent banking relationships and lines of credit with a number of major domestic and foreign banks, including Security Pacific, American Express, Bank of New York, National Westminster Bank and Bank of America. BCCI also developed relationships with leading investment banking firms. For example, in 1983 BCCI issued \$50 million in floating rate notes that were underwritten by such major investment brokerage houses and banks as Merrill Lynch, First Chicago Limited, Prudential-Bache Securities, Lehman Brothers, and Kidder Peabody.7

Many regulatory authorities granted approval to BCCI to conduct operations within their jurisdictions during the 1980's.* Thus, BCCI purchased banks and opened banking operations all over the world, including its licensed banking agencies in the United States in New York, Florida, and California. By way of illustration, Mr. Gerald Lewis, the Comptroller of Florida, wrote to Mr. Abedi in late 1985, urging BCCI to establish its U.S. banking operations in his state because Florida was the

"most commercially attractive and viable state to locate and expand [his] bank's US activities." A copy of this letter is appended hereto as Attachment C. Many public and private entities, including the United Nations, UNI-CEF, and the central banks of Peru, Nigeria, Zimbabwe, Bangladesh, and Kenya, kept substantial funds on deposit with BCCI.9

We have seen the recent reports that various
United States government officials were aware of illegal
activity at BCCI prior to the Tampa indictment. 10 We do
not know if these reports are true. If they are, this
information was never brought to our attention. Indeed,
we were aware of BCCI's close relationship with world
figures of unquestioned integrity. Apparently, those
individuals also were not apprised of the information now
said to have been held by our government.

The FGB Litigation.

As noted above, our law firm was retained in February 1978 to represent the Arab investors, BCCI and Mr. Abedi in legal proceedings that arose in connection with the purchase of approximately 18 percent of the stock of FGB. In an effort to resolve the SEC case and protect the financial interests of the investors, a tender offer to acquire control of FGB was recommended by

New York counsel. The documents settling the SEC proceeding expressly provided for a tender offer by the investors and/or ICIC, a corporate shareholder of BCCI.

When we agreed to assist in pursuing this acquisition, we understood that our government did not oppose Arab ownership of American banks. Indeed, a view was expressed by thoughtful United States policy-makers that the purchase of crude oil by the United States had resulted in the transfer of billions of dollars annually to the Middle East, and that it would benefit the American economy to have some of that money returned to the United States in the form of capital investments.

The SEC proceedings were resolved in March 1978, but the litigation with FGB management, which sought to prevent the acquisition, continued until the summer of 1980 -- making this one of the longest corporate takeover struggles in history. The extensive litigation with FGB was intense, and exhaustive discovery was conducted of the investors, BCCI and others. Each of the original investors, as well as Mr. Abedi and other BCCI officers, testified under oath in depositions. In all this extensive testimony, there was no evidence that the investors were acting for BCCI.

The takeover contest contributed substantially to our understanding and belief that the investors were seeking to acquire FGB shares in their own right. the ensuing depositions, the investors, Mr. Abedi, and other BCCI officials testified under oath in the presence of counsel. None of us had any reason to question the veracity of their sworn statements. In particular, their sworn testimony established that: (i) the investors were purchasing FGB shares for their own interest, because they valued the stability of investments in the United States; (ii) BCCI did not control, vote, or have the power to dispose of the shares purchased by the investors; (iii) BCCI would not finance the purchase of shares in the tender offer; (iv) BCCI's role with respect to the investors' purchase of FGB shares was that of commercial banker and investment advisor; and (v) the investors intended their investment to be managed by American professionals.

Nothing in the course of this litigation -neither the investors' actions nor their words -- indicated in any way that they were nominees for BCCI, as is
now alleged. During the course of the takeover litigation, they travelled to the United States to testify
under oath and defend their investment. They were also

willing to make extensive personal disclosures to regulatory authorities.

In July 1980 an agreement was signed with the management of FGB settling the litigation and providing for the acquisition of FGB by the Middle Eastern investors, subject to regulatory approvals.

REGULATORY PROCEEDINGS

Before the tender offer for First American could be consummated, various federal and state bank regulatory authorities had to approve the transaction. A lengthy written application was filed with the Federal Reserve Board setting forth all relevant facts relating to the transaction. This application was prepared collectively by lawyers at Wachtell, Lipton, Rosen & Katz; Clifford & Warnke; and Kutak, Rock & Huie. Each of these law firms had direct contact with BCCI and the Arab investors regarding the representations being made.

Further, the regulatory approval process followed heated, high profile litigation and took place in an atmosphere of intense opposition, particularly in New York City, where one of FGB's principal banks was located. The investors' applications for regulatory approval of the tender offer therefore received intense scrutiny.

The Federal Reserve Board took the unusual step of convening an on-the-record hearing in April 1981, at which federal and state regulators had an opportunity to question some of the investors, who made themselves available for this purpose. 11 At that hearing, four of the investors appeared and affirmed that they -- not BCCI -- owned and controlled their FGB shares. The investors also made clear that they intended to participate in the tender offer for their own accounts, and that they intended to leave the management of the Company to an American Board of Directors. Explicit assurances were also given by the investors during the regulatory approval process that BCCI had not and would not finance the acquisition of FGB shares in the upcoming tender offer, or otherwise participate as an investor in the tender offer.

The <u>bona fides</u> of the investors throughout this process seemed evident to us. The initial group of investors had been expanded to fourteen persons and entities of stature in the Middle East. Their number included members of the ruling families of the United Arab Emirates and their wholly owned investment companies.

One of the investors, the Abu Dhabi Investment Authority, was a wholly-owned governmental entity, responsible for

investing the assets of the Emirate of Abu Dhabi.

Charged with investing the resources of one of the richest countries in the world, it hardly could have appeared more substantial, and the logic of its interest in investing in a United States financial institution which promised long term growth and stability seemed plain.

Sheikh Kamal Adham, the "informal chairman" or leader of the shareholder group -- and reportedly a close associate of Anwar Sadat of Egypt -- similarly was considered a leading citizen of Saudi Arabia. During those proceedings, we received references from major corporations which attested to Sheikh Adham's character, integrity, and financial resources. As examples, two such letters of reference are appended hereto as Attachment D. Similar references were provided for other investors.

One personal observation about these people also seems relevant. Along with Sheikh Adham, Sheikh Zaied bin Sultan al Nahyan, the ruler of Abu Dhabi, had helped Mr. Abedi to start BCCI. These gentlemen were among Mr. Abedi's most important clients. In our experience, Mr. Abedi was always exceedingly deferential in the presence of any of the investors. It seemed plain to us that Mr. Abedi was an agent of the investors, not a principal.

Martin Lipton of the law firm of Wachtell,
Lipton, Rosen & Katz had a similar reaction: "Mr. Adham
talked to Mr. Abedi in a manner which clearly indicated
to me that Mr. Abedi was Mr. Adham's agent, not his principal; Mr. Abedi, for his part, was entirely deferential
to Mr. Adham."12 No one questioned that Mr. Abedi served
the investors, not the reverse. Again in Mr. Lipton's
words, "no person who observed the interaction between
them would have believed that Mr. Adham was a 'front' or
'nominee' for Mr. Abedi or BCCI."13

The investors provided certified financial statements and presentations, which documented their ability to purchase the Company. The regulators did not rely solely upon these materials, but rather made independent inquiries into the investors' financial resources and integrity that certainly were far-reaching in scope. In his 1982 testimony before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Mr. Wallich of the Federal Reserve described the scope of the Board's investigation:

The Board worked very hard at this because . . . this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source.

We also, of course, obtained bank statements. We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named accountants of the Big Eight.

* * *

. . . [W]e used all sources that were at our disposal. I think a very unusual effort was put into this because of the importance of getting a clear picture. After putting it all together and getting the cross-checks, we arrived at the conclusion that these [investors] were satisfactory.

(Attachment B, p. 56-57). Virgil Mattingly, General Counsel of the Federal Reserve, recently reaffirmed the extent of the Board's own investigatory efforts during his testimony before the Subcommittee on Terrorism, Narcotics and International Operations of the Senate Foreign Relations Committee. 14

The magnitude of this review also is well described in a letter written by Alan R. Cohen, Acting Superintendent of the State of New York Banking Department, to the late Congressman Benjamin Rosenthal, dated October 12, 1982, appended hereto as Attachment A. As Mr. Cohen wrote, the regulatory applications by Credit and Commerce American Holdings ("CCAH") and Credit and Commerce American Investment ("CCAI"), First American's parent companies, "received more scrutiny from more regu-

latory agencies than any other in recent memory." He went on to say that

[o]ver a period of four years, the application was scrutinized by the Federal Reserve Board, the Comptroller of the Currency, the Securities and Exchange Commission, and the banking authorities of the states of Maryland, Virginia and Tennessee as well as New York.

Mr. Cohen advised Congressman Rosenthal that the "vast investigative resources of the federal government" were brought to bear upon the investors and their application. According to Mr. Cohen, information about the investors was obtained, inter alia, from the State Department and the Department of Commerce.

Finally, the regulators "utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank," as additional sources of information. As Mr. Cohen stated:

Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information . . . [the regulators] ha[d] received, and were able to supply . . . additional information as well.

As the New York Banking Department informed Congress,
"[f]rom none of the foregoing sources of information did
we ever receive any derogatory information about any of
the investors."

In short, the regulatory proceedings were thorough and extensive. Any suggestion that regulators approved this transaction on the basis of general assurances from counsel is completely refuted by the record.

We believed, as did our co-counsel from other firms and the many regulators who carefully had scrutinized the matter, that the investors were substantial persons who desired a passive investment in a valuable American banking franchise -- not BCCI nominees. As co-counsel Mr. Lipton has stated:

During the course of Wachtell Lipton's service as counsel, I saw no evidence suggesting that BCCI or Mr. Abedi was a principal in the transactions, much less that Mr. Adham or the other Investors were "nominees" or "fronts" for BCCI or Mr. Abedi. To the contrary, it appeared that BCCI and Mr. Abedi were the advisors they held themselves out to be. By the same token, in all my dealings with Messrs. Clifford and Altman, I saw nothing which led me to believe that either of them knew or suspected, or had any reason to know or suspect, that BCCI or Mr. Abedi was a principal. 15

For nearly nine years following the takeover, nothing occurred to disabuse us of our basic belief about the Middle Eastern owners of this Company.

MANAGEMENT AND CONTROL OF FIRST AMERICAN

After the acquisition was approved by the Federal Reserve and the relevant state authorities, the

tender offer for FGB -- which later was renamed First American -- was consummated in April 1982.

Mr. Clifford had been asked in 1980 by the shareholders to consider serving as Chairman of the Company following the acquisition. At the time of the acquisition, Mr. Clifford was 75 years old, and had had a long and successful career in government and the private practice of law. The invitation to become Chairman was appealing. The investors, who had remained steadfast through the years of difficult litigation, clearly required assistance as "passive owners" of the Company. Equally important, however, was the challenge posed to try to realize the potential of this banking company.

Before accepting the offer, however, a fundamental agreement was made with the shareholders on the issue of authority. The express understanding was reached that Mr. Clifford would have <u>complete</u> authority for the management and direction of the Company and <u>complete</u> responsibility as Chairman for its operations.

Against this background, Clark Clifford joined the Boards of CCAH, CCAI, and First American Corporation in 1981, and became Chairman of the Board of First American Bankshares in April 1982. Former Senator Stuart Symington was elected Vice Chairman of First American

Bankshares, a Managing Director of its parent holding companies, and a director of the subsidiary New York bank. Robert Altman became President of First American Corporation and a director of various First American holding companies and subsidiary banks. A group of distinguished Americans — including, for example, James Gavin, a retired General of the United States Army, who had served as United States Ambassador to France and Chairman of Arthur D. Little; and Elwood Quesada, a retired Air Force General who had served as Administrator of the Federal Aviation Administration and Special Assistant to President Eisenhower — were invited to become members of the Board.

A professional banking staff was employed to conduct the day-to-day banking business of the Company. We, together with the Board of Directors, thereafter established the broad policies, strategic directions, financial objectives, and operating philosophy of First American. The law firm of Clifford & Warnke was retained, at the express request of the shareholders, to serve as general counsel to First American.

The investors, who had vowed to remain passive, also committed themselves to having 60 percent of their shares voted by Senator Symington for five years. This

dramatized the transfer of control from the shareholders to the American directors. Thereafter, the shareholders signed proxies for annual meetings which generally affirmed the recommendations of the American Board of Directors.

During the nine year period when we headed

First American, the Company prospered and grew. It was

transformed from a small, lackluster group of banks into

the largest banking organization in Washington, D.C. A

retail banking franchise was created that remains

unique -- and uniquely valuable. In August of this year,

in view of the continuing negative publicity about BCCI

which often -- inaccurately -- featured us and First

American, we resigned our positions.

Management's Dealings with BCCI.

Much has been made of our contacts with BCCI in the years following the acquisition of First American. It is only today's hypersensitivity to BCCI that makes these contacts appear controversial. Over the past decade, we met with officials of BCCI several times a year in London. We also had meetings in the United States. These meetings were not unusual, nor were they in contravention of understandings we had with bank regulators. Nor were they in any sense secret, much less improper.

During the regulatory proceedings, the regulators repeatedly were told, orally and in writing, that BCCI had existing banking and other relationships with the shareholders and had provided, and would continue to provide certain services to the CCAH investors in connection with their CCAH investments. Specifically, the regulators were advised that the investors used BCCI as their commercial and investment bank; that BCCI had provided and would continue to provide "advisory and other services" to the shareholders with respect to their CCAH investments; and that BCCI served as a communications link with the investors (given the logistical problems in communicating with these foreign shareholders). 16 deed, the regulators expressly were informed that BCCI would continue "to look after and provide advice to the Investors with respect to their investments," including their investment in First American. 17 This was consistent with the roles played by BCCI during the years of the takeover litigation.

Following the acquisition, we continued to interact with BCCI and the investors as we had done previously. As before, Sheikh Adham, as the leader of the shareholders, and Mr. Abedi, as an advisor to the share-

holders, continued to meet with us on a regular basis over the years to hear reports on the investment.

that BCCI undertook for the shareholders after the acquisition also were believed to be consistent with representations to bank regulators and seemed entirely unexceptional. In connection with annual meetings, proxies were sent to the shareholders through BCCI and were signed by the shareholders and returned through BCCI. A sample of these signed proxies is appended hereto as Attachment E. Letters of acceptance or waiver for share subscriptions in connection with our efforts to raise capital from time to time were sent to the shareholders through BCCI, and were received back signed by the shareholders, occasionally retyped on the shareholders' letterhead.

In connection with the Company's efforts to raise additional capital through rights offerings, we increasingly were asked by the shareholders to provide offering memoranda which would explain the need for additional capital. In this regard, we were informed by BCCI that the shareholders demanded more formal communication from management before they would commit substantial additional monies to First American's operations. Such demands for information, of course, were entirely consis-

each made a personal investment in the Company. In response to these requests, in 1986 we prepared and distributed to the shareholders a lengthy profile of CCAH, which described the unique opportunity for investment presented by purchasing shares in First American's parent company. Offering memoranda were prepared and distributed to each shareholder in connection with the rights offerings held in 1987 and 1989. These memoranda were intended to permit a shareholder to be informed fully about the investment decisions being presented.

As a result of these and other communications, it was our understanding that the shareholders of record were the owners of the Company. We believed that BCCI was in touch with the shareholders, and was keeping them informed about the status of their investments, as had been contemplated. BCCI, in its communications with us and others, certainly conveyed the impression that it was acting as a link with very real shareholders, consistently referring to "the investors", "the shareholders," and their views.

BCCI performed the same communications function with respect to all the shareholders, including those like Sheikh Zaied and others, against whom no allegation

of nominee status has been lodged. We certainly had no suspicion that BCCI might have been treating certain shareholders differently from others.

Of course, nothing in the books, records, or operating history of First American indicated that BCCI controlled the stock of the Company. No stock was ever issued to BCCI by CCAH or registered in its name or for its beneficial interest. No notice of foreclosure on Company stock has ever been received from BCCI. During the nearly ten years of alleged foreign ownership of First American, BCCI never attended any Annual Meeting of shareholders or voted on any corporate matter, including the election of directors. Those votes were cast by the registered shareholders. BCCI never attempted to exercise any rights or control of an owner at any time.

In sum, all indications were that the investors were real and that they received information relating to CCAH through BCCI in its capacity as investment advisor and communications link -- roles which had been disclosed to the Federal Reserve from the outset. After the acquisition of FGB, as before, the conduct of the investors and of BCCI was consistent with our understanding that the investors had acquired First American independently of BCCI¹⁸ and were the real owners of those shares.

Absence of BCCI Control.

We wish it to be plain on the public record that -- whatever the facts are relating to secret control by BCCI over any First American stock -- BCCI did not control the management decisions or actual operations of First American. 19 Indeed, as we noted earlier, the policies, procedures, systems, and operations of First American and BCCI are substantially dissimilar.

As the recent Price Waterhouse report to the Bank of England states:

[BCCI's] former management have represented to us that the arrangements [between BCCI and First American] were in the form of a 'merchant banking' transaction, in that it always acted as a 'sleeping partner,' at no time using any voting rights or exercising any controlling influence over the management of First American.²⁰

The record discloses that BCCI did not control the management decisions of First American, and that it had no involvement at all in the overwhelming number of First American's activities and transactions.

New York Operations.

Some have focused on First American's efforts to establish a bank in New York City and have questioned BCCI's role in the hiring almost ten years ago of several officers of the original management group of that bank.

The fact is BCCI has not in any way controlled First
American Bank of New York ("FABNY"), much less the First
American organization. These events now being questioned
cannot be viewed in isolation, and are related to unique
circumstances in New York during the 1982-1983 time period. It is noteworthy that during the last nine years new
CEOs have been selected at each of the First American
banks. These selections were not made or controlled by
BCCI. Similarly, many senior officers in the First American organization, including officers vested with broad
management responsibilities, have been hired over the
past nine years. Again, BCCI did not make or control the
hiring decisions of First American.²¹

In connection with the 1981-82 regulatory proceedings to acquire two New York banks owned by FGB, an application was submitted to the New York State Banking Board. Due to strong opposition, the investors agreed to divest the New York City bank following the tender offer. The Middle Eastern investors, in effect, were forced to create a new bank in New York City -- an unforeseen development.

As a result, an entire management group to operate the New York bank had to be identified and hired.

Mr. Abedi, as investment advisor to the shareholders, was

consulted about bankers who he might know or recommend for employment by the new First American Bank of New York. This assistance was particularly welcome as FABNY was to have an international banking capability, and Mr. Abedi's background was devoted to international banking. At no time, however, did Mr. Abedi make decisions concerning the selection, hiring, or dismissal of officers. Final authority -- as made clear by Board minutes -- rested with Mr. Clifford and the FABNY Board.

The first CEO of FABNY -- a candidate recommended to Mr. Clifford by Mr. Abedi -- was a senior officer with Bank of America. He appeared well qualified for the position, and after due consideration was appointed as CEO of FABNY by its Board of Directors. As a result of operating differences that arose subsequently between this individual and Mr. Clifford and the FABNY Board, he was replaced after only two years. Another banker, Mr. William Duncan, who had been with Chemical Bank, was identified by an executive search firm and was hired by the FABNY Board. The lack of BCCI control over FABNY is made clear by Mr. Duncan, who has been the CEO of FABNY for approximately the past six years:

Since I joined FABNY, I have not seen any indication that BCCI, or any of its officers or directors, has executed any form of control over the management, operations or policies of

FABNY. I have never been given a directive by any BCCI official or sought their advice on any issue.

Since becoming CEO, I have exercised broad authority in running FABNY. In consultation with FABNY's Board of Directors, I have been the person who has made the key decisions with respect to the management, operations and policies of FABNY.²²

The National Bank of Georgia.

In connection with allegations of BCCI control, other questions have been raised about First American's acquisition of the National Bank of Georgia ("NBG") in 1987. An objective review of the transaction not only reveals that BCCI did not control First American's actions, but indeed demonstrates the complete independence of First American's management from BCCI.

The acquisition of NBG was a reflection of First American's consistent corporate strategy of expansion since 1982. In 1985-86, with the arrival of regional banking through interstate compacts, First American, a Virginia corporation, looked to expand outside its primary market areas into the southeast region. As we were considering expansion possibilities, we learned that the owner of NBG, Ghaith Pharaon, was in financial difficulty and might be willing to sell the bank.

NBG, one of the last major independent banks in Atlanta, was a particularly attractive acquisition prospect. In a conversation with Mr. Abedi, whom we knew to be an associate of Mr. Pharaon, we expressed First American's interest in purchasing the bank if it were to be sold. When we received word of Mr. Pharaon's willingness to sell the bank, the deal was actively pursued by First American with the assistance of outside regulatory counsel. In December 1986, based solely on its judgment of First American's best interests, the CCAH Board approved the proposed acquisition of NBG. BCCI did not influence these deliberations, nor did it control the Company's decision to acquire NBG.

The price paid by First American was reasonable and determined free of control by BCCI. First American's financial staff had determined privately that a price in the range of that ultimately paid by First American -- a net of approximately \$210 million, or 2.25 times book value -- was reasonable. (Such multiples of book were not uncommon for bank acquisitions during that period.) Furthermore, the North Carolina National Bank ("NCNB") also was aggressively pursuing the acquisition of NBG at the same time. NCNB submitted a bid (consisting of NCNB stock) valued at approximately \$210 million. Mr. Phar-

aon, who reportedly considered the NCNB offer carefully, decided ultimately to sell NBG to First American, as we were making a competitive bid for cash. As it is not suggested that NCNB was controlled by BCCI, it is logical that the price paid by First American, which essentially matched NCNB's bid, was reasonable and market-driven.

It is also noteworthy that the funds used by the Company for the purchase of NBG came from our shareholders, not First American's capital. The net result of the transaction is that First American acquired NBG -- a valuable asset -- without having to draw upon its own existing financial resources for the purchase. (We do not now know what portion of the total funding may ultimately prove to have been provided by BCCI.)

We are, of course, aware of allegations concerning BCCI's relationship with Mr. Pharaon and his alleged nominee arrangements relating to NBG. We do not know what those facts are, but we submit that -- whatever the truth of those charges -- the actions of First American after acquiring NBG are completely at odds with the theory that BCCI controlled First American.

Our analysis of NBG revealed that it had adopted or practiced many of BCCI's banking concepts when it was owned by Mr. Pharaon. After the NBG acquisition was consummated, First American implemented fundamental changes in the bank's management and operations. officers at NBG who had been close to BCCI and Mr. Pharaon were replaced. A new Chief Executive Officer was appointed to run the Georgia operation. tegic banking focus was shifted from international banking to the traditional retail banking concepts characteristic of First American. First American dispensed with the NBG logo that strongly resembled the unique BCCI logo, and eliminated various operating elements -- such as an open seating place for officers -- reminiscent of BCCI. First American also ceased the distribution of BCCI literature at the bank, which had occurred during Mr. Pharaon's ownership. These and other changes implemented by First American are at odds with claims that BCCI controlled First American's operations.

No Financial Improprieties.

There is no basis for any suggestion that First American may have been used by BCCI for money laundering. While no large financial institution can give absolute assurances that its facilities are not misused by others, both internal and external audits have confirmed that BCCI did not launder money at First American. In the spring of 1990, the First American internal audit group

performed a six month analysis of BCCI's dealings with the Company and found no instances of money laundering. Additionally, when the allegations surfaced about BCCI and First American early this year, intensive audits of the First American banks were conducted by federal and state regulators; to our knowledge no money laundering violations were uncovered.

We note that the Justice Department listing of 173 United States banks having accounts of the Medellin cartel in 1990 did not include First American. We also think it pertinent to note that the FDIC recently completed an intensive compliance audit and concluded that First American's money laundering control procedures were "state of the art" and a "model" for other commercial banks to emulate. We are gratified by these conclusions.

A Record of Independence at First American.

A review of First American's operating history plainly demonstrates that BCCI did not operate or control First American. Senior staff of the Federal Reserve commented on this subject in a recent appearance before the Congress, when it was noted that "[Virginia Commissioner of Financial Institutions Sidney] Bailey has recently reported that the state [of Virginia] has no criticism whatsoever of the management of [First American Bank of Virginia], and no evidence of attempts by Middle Eastern investors to influence, in any way, the policy of that bank."²⁴ As Senior staff also noted during that same congressional appearance:

[O]ur first reaction ... was ... to look carefully at the US entities here and see what kind of [BCCI] involvement there was and was any of it detrimental to the banks here. And over the years we have not had one single report of such an instance.²⁵

As the CEOs and members of the boards of the subsidiary banks would make clear, BCCI had no role in establishing the strategic focus of FAB and its subsidiary banks, no role in creating or developing their investment or lending policies, and no participation in credit decisions at First American banks. BCCI did not control First American's decision to acquire the minority stock of subsidiary banks, nor was it involved in other

major transactions and expenditures by First American, such as the sale or merger of bank subsidiaries. BCCI had no influence in the creation and development of new FAB subsidiaries — such as Metro Corp., which was established to manage the majority of First American's assets — nor did it play any role in the development and consolidation of FAB's human resources policies. These and myriad other activities are a valuable measure of the First American banks' activities, and hence of the independent operations of First American.

OUR INVESTMENTS IN FIRST AMERICAN STOCK

Public attention has been directed to our investments in the stock of First American, with special focus upon the financial arrangements for the transactions. We are pleased to explain our investments and place them in their proper context.

Following the acquisition of First American in 1982, we devoted enormous time and resources to the bank's management. Strategic concepts were adopted, financial objectives and controls were established, and a new spirit was created within the Company. In the ensuing four years, from 1982 to 1985, the assets of First American increased more than three-fold, from \$2.3 billion to \$7.2 billion.²⁶

As was noted above, we had accepted our positions because of the exciting challenge this enterprise presented. The compensation paid us by the Company was relatively modest. Mr. Clifford, as Chairman, requested, and was paid, \$50,000 a year -- a modest amount compared to the substantial annual compensation paid to the top officials of major banks.²⁷ Mr. Altman, who served as President of First American Corporation and as a director of several First American banks, received no compensation other than the usual director's fees. (As a separate matter, Clifford & Warnke, as general counsel to the Company, received fees for the legal services it rendered. These legal fees, however, would have been earned without regard to the management responsibilities we assumed at First American.)

Nor were we given the valuable perquisites that are normally provided senior officers of large corporations. We received no financial bonuses, incentive compensation, or profit sharing. We were not participants in the Company's thrift or pension plans. In 1987, at the age of 81, Mr. Clifford was provided use of a company car and driver. Mr. Altman received no car or driver.

If First American prospered under our leadership, we hoped we would be permitted to invest in stock and thereby participate with the shareholders in the economic benefits we were creating. In effect, we chose to take our financial rewards as managers by making an investment in stock. This reflected our confidence in the future of the Company. In 1985, in the light of four years of sustained economic growth experienced by First American under our control, we discussed with Sheikh Adham the possibility of acquiring stock in the Company. We also discussed it with Mr. Abedi, as the advisor to the shareholders. We learned that the shareholders favored our investment in the Company.

We contacted our New York counsel, Wachtell, Lipton, Rosen & Katz, to obtain legal advice on the transaction. The attorneys consulted were experts in matters of corporate finance and in the structuring of stock purchase transactions. In addition, they had acted as co-counsel in the litigation and bank regulatory proceedings leading up to the acquisition of FGB in 1982.

We were not given an outright grant of stock, nor were we awarded stock options. Rather, in the spring of 1986, an effort was going forward to raise additional capital for the Company through the procedure of issuing additional shares of stock. Each shareholder could purchase his pro rata interest in CCAH in those rights of-

ferings. In conformance with established corporate practice, the shares were to be offered at book value. We had learned that certain of the shares in the offering might remain unsubscribed, and that we could purchase such shares at the same price -- book value -- as was paid by the other shareholders.

We determined to acquire shares on this basis, and to finance this investment through bank loans, if possible. Wachtell, Lipton, Rosen & Katz advised us that any financing should be arranged on a non-recourse basis, in view of the lack of liquidity of the shares of this closely held company. Counsel were particularly concerned that Mr. Clifford, who was then 81, should obtain financing on a non-recourse basis so that his estate would not possibly be left with a substantial debt.

The first institution we approached for financing was Banque Arabe et Internationale d'Investissement ("BAII") in Paris, the consortium bank that acted as the lead lender in the syndicate that had lent \$50 million in connection with the acquisition of FGB in 1982. BAII was interested in making the loan and prepared draft documentation. When problems arose in the negotiation of terms by our counsel, however, efforts commenced to explore with BCCI financing for the contemplated stock purchase.

BCCI, too, was familiar with the stock being offered as collateral and the market for the shares.

BCCI agreed to provide the financing on the non-recourse basis recommended by our counsel. We executed promissory notes to BCCI for our respective loan amounts of \$9,960,920 and \$4,979,352, together with related instruments. The borrowing was secured by a pledge of the acquired shares. (To be clear, the non-recourse feature of the debt meant that in the event of a loan default, BCCI would look only to the pledged security which had been agreed upon as collateral). We retained voting rights in the pledged shares. Thus, as Wachtell, Lipton, Rosen & Katz had originally advised, the structure of the financing satisfied our financial objectives while accommodating the lender's need to be adequately secured.

As noted earlier, our investment in CCAH stock was known to and encouraged by the shareholders. In addition, our intended purchase of stock was duly disclosed to and authorized by the Board of CCAH, the parent company of First American. In advance of the 1986 rights offering, Mr. Clifford personally informed Managing Directors Symington and Quesada that we intended to acquire stock in the corporation. The CCAH Board was informed of

and consented to these purchases in writing. We also disclosed the acquisition of this stock to the Federal Reserve Board, by filing the annual reports required by the Federal Reserve for this purpose.

In 1987, the CCAH Board authorized another offering of new rights shares to raise additional capital for continued growth and expansion. As shareholders, we participated in this rights offering by purchasing our proportionate allotment of shares. As in the previous rights offering, BCCI agreed to finance this purchase of the shares, but only upon the condition that we discharge the accrued interest upon our prior loans, which had not yet come due. We agreed to this condition and paid the accrued interest — together over \$1 million.

In February 1988, Mr. Clifford wrote to BCCI to inquire whether a buyer could be found who was interested in purchasing some portion of our holdings. We wished to take advantage of the strong market for bank stocks that then existed. We also wished to reduce our large indebtedness to BCCI. BCCI's relationship with Middle Eastern clients, who seemed the most likely candidates for a placement of these non-public shares, made BCCI the logical recipient of our inquiry. This also was consistent

with the provisions of the loan agreements executed in 1986 and 1987.

In March 1988, BCCI advised that it had found a purchaser, subsequently disclosed to be an existing CCAH shareholder, Mohammad Hammoud, who was a Middle Eastern businessman of substantial means. Mr. Hammoud was said to be prepared to buy 4,800 shares. 28 If we agreed, this represented a sale of approximately 60 percent of our stock holdings. We decided to authorize the sale, and with the proceeds we extinguished our outstanding indebtedness to BCCI in its entirety.

We do not know whether Mr. Hammoud financed his purchase, though we understood he was a person of considerable wealth. We have been advised by accountants for BCCI that BCCI has no lien against those shares, which were purchased in Mr. Hammoud's personal name. We note that Mr. Hammoud was not listed by the Federal Reserve in July as one who had served as a nominee of BCCI.

In summary, our investment in the stock of the Company was undertaken with the encouragement of share-holders, with the unanimous consent of the managing directors of CCAH, and with the advice of counsel as to the structure of the transaction. We purchased an extremely small percentage of the outstanding CCAH stock (two per-

cent and one percent respectively) at the same price as was paid by all other purchasers in the rights offering. In 1988, we sold a portion of our stock, at which time our outstanding BCCI loans were fully repaid with interest. Our purchases were timely reported to the Federal Reserve.

The financing, purchase, and sale of this stock were completely legal and proper. Unlike the alleged sham loans to nominees, our borrowings were real obligations, fully documented, and were repaid over three years ago. Moreover, they did not result in BCCI owning our shares through foreclosure. These transactions did not contravene any representations made to federal and state regulators. Nor did the transactions in any way give BCCI control over First American. Our participation in the rights offering benefitted CCAH by providing capital necessary to permit continued growth. The financial details of these transactions previously have been released publicly, and a copy of that public statement is appended here to as Attachment F for the record of these proceedings.

In 1989, we again purchased our pro rata allotment of stock in a rights offering by CCAH. No BCCI loans were used to finance those purchases. In 1990, when the Company again needed capital for support during the economic downturn, we invested in debentures that were issued for this purpose. No BCCI loans were used for that investment.

CLIFFORD & WARNKE REPRESENTATION OF BCCI

Clifford & Warnke has provided certain legal services to BCCI. Beginning in 1978 and extending through 1981, we represented BCCI as lawyers in the litigation and the related proceedings arising from the original acquisition of shares in Financial General by the investors. When that matter was concluded, we were asked, from time to time, to render legal services to BCCI on various corporate issues.

It should be noted that -- contrary to press reports -- Clifford & Warnke was not designated as BCCI's primary legal representative in the United States. Rather, BCCI used many prominent firms in the United States. BCCI had significant legal representation by major firms in Florida, San Francisco, New York, and Washington, D.C.

Attention has been given to our legal representation of BCCI after an indictment was returned against BCCI for money laundering in Tampa, Florida. We were contacted by BCCI's London office and asked to recommend law firms to represent BCCI and its officers. Together

with BCCI's Florida counsel, Holland & Knight, the largest law firm in that state, we provided the names of various defense attorneys, who were retained. We thereafter were asked to monitor the case for BCCI, consult with senior management, and assist with administrative functions, including the handling of a fund to pay legal bills.

Clifford & Warnke's legal services for First
American and, separately, for BCCI were neither improper
nor unusual. There were no ethical violations in these
representations. Fees paid to the firm were consistent
in amount with our normal billing practices.

RESPONSE TO OWNERSHIP ALLEGATIONS

In 1989 and 1990, we heard that BCCI might have acquired a secret ownership interest in First American. Certain press accounts during the period raised similar charges. While we believed these reports were wholly unfounded, we made prompt inquiries to determine whether there was substance to the allegations.

In this regard, in connection with the Tampa criminal case against BCCI, an undercover conversation had been taped in which an individual, Amjad Awan, suggested that BCCI might own First American through nominees. We became aware of that evidence, secured a copy

of the transcript, and reviewed it. In recent months, certain reports have quoted from the transcript and have made it appear that the individual had made conclusive assertions about BCCI's ownership of First American. The actual transcript is considerably less revealing or definite. Omitted from these recent reports is the following excerpt from the transcript, which places the comments in their proper context:

I have [a] totally different assessment of the situation. And it might be far-fetched, it might sound stupid, but my assessment is, that we own a bank in Washington. I may have mentioned it to you before.²⁹

The transcript of the undercover conversation clearly suggested that the individual was offering only personal speculation. We nonetheless asked BCCI counsel in that case to inquire of the individual and his counsel as to the basis for his statements. We were informed that the contention was, as it appeared, just a guess and the individual disclaimed any factual support for the assertion he had made.

We, together with the defense team of former federal prosecutors representing BCCI, pursued the subject several times in conversations with top management of BCCI. We received repeated assurances that these

rumors and allegations were entirely untrue. We and the attorneys found those denials to be credible.

As a separate measure, however, counsel made a private inquiry of Price Waterhouse to determine if BCCI's files contained information which would support allegations of BCCI's ownership of First American, or its financing of the 1982 acquisition of FGB. We were informed that Price Waterhouse had been concerned about the issue, but that no documents had been found in BCCI's files that would substantiate the claim.

We also talked directly with some of the CCAH shareholders about these allegations. For example, at a meeting in July 1990 with Sheikh Kamal Adham and El Sayed Jawhary in London, we were emphatically advised that the allegations of BCCI ownership were untrue. We again found these statements to be credible.

In view of continuing allegations of BCCI ownership of First American, we later attempted to contact all CCAH shareholders to advise them of the allegations and to request an opportunity to discuss the charges directly with each. This led to additional meetings and discussions with various shareholders. Despite repeated efforts, we were unable to reach certain shareholders who did not respond or were unavailable. Those with whom we

have talked -- representing a majority of the stock -- denied the charge that BCCI owned or controlled their shares.

Recent reports from England now allege that BCCI was in reality two banks: the seemingly respectable public institution with which we and others dealt; and a secret bank-within-a-bank that only a handful of BCCI officials had any idea existed. It is this secret internal bank that is said to be central to BCCI's hidden ownership of stock in First American. If the allegations about BCCI's secret ownership interest of stock in First American prove to be true, then we shall be counted among the many persons whom BCCI deceived.

It is, however, important to note that the issues relating to secret ownership of CCAH stock by BCCI is, at this point, still unresolved. Certain of the CCAH shareholders, including for example, Sheikh Zaied of Abu Dhabi, President of the United Arab Emirates, apparently are not challenged by the Federal Reserve as being bona fide owners. Others -- alleged to be BCCI nominees -- have denied the charges.

It must be recalled that the allegations concerning CCAH stock apparently are based almost exclusively on BCCI's internal books and records -- documents

which are said by Price Waterhouse, BCCI's auditors, to be incomplete, ambiguous, and of questionable authenticity. It is therefore appropriate that caution be exercised before all the allegations are equated with factual determinations.

Like others outside of BCCI's management group, we simply do not know the true facts about BCCI. We are among many people who dealt with BCCI in good faith for years and are mystified and embarrassed by the reports we read about widespread fraudulent activity. President Carter, who engaged in charitable endeavors supported by Mr. Abedi and BCCI, has stated:

I have obviously been shocked and disturbed at what has been revealed in the last few months . . . [A]ll of these revelations have certainly been an amazing thing to us, and we're very shocked and grieved and disturbed by it.

* * *

We didn't know the facts. I don't know how much of the fact was known by anybody in this country. All the time I was dealing with the bank, we were one of the recipients of their interest in improving the lot of people in the third world. That's all I know about them.³⁰

Similarly, former British Prime Minister Lord Callaghan, who had been on retainer with BCCI, recently was quoted as saying of Mr. Abedi:

I don't believe he was an evil man. I felt he was genuinely concerned, that he had ideals. I found him a man I would honor. A year ago I would have had no hesitation saying Mr. Abedi acted out of altruism. Maybe I was a sucker.³¹

Other prominent figures, including the Secretary General of the United Nations and our former Ambassador to the U.N., Andrew Young, appear similarly surprised and distressed.

Some question how -- as persons who dealt regularly with BCCI for years -- we could be unaware of the alleged fraud. We have, of course, carefully searched our memories for any missed indication that a fraud was being perpetrated, but no signs of misconduct are readily apparent to us. And one must recognize the practical impossibility of management knowing what any shareholder does with his stock once purchased -- particularly when the shareholders are located in the Middle East. As the General Counsel of the Federal Reserve Board has recently observed, "[f]raud is hard for anyone to detect, especially when the transactions are deliberately structured to conceal true relationships, and when the relevant information is outside the [United States]."32

Many persons and entities who, unlike us, had powerful investigative resources, direct access to BCCI's books and records, and a duty to oversee BCCI's operations, apparently now say they were deceived, including the Bank of England, the Directorate of the Luxembourg Monetary Institute and the Grand Cayman Inspector of Banks and Trust Companies. BCCI allegedly misled its best customers and strongest supporters in the Middle East, including Sheikh Zaied bin Sultan al Nahyan.

CONCLUSION

We know that First American was honestly and capably run throughout the tenure of our management, that it prospered under our leadership, and that our own conduct was entirely proper. No depositor at First American has ever lost any money. No investor or bond holder has been cheated. No customer has been defrauded. Management has not lived royally using federally insured deposits. There have been no "sweetheart" loans to insiders at First American, nor any embezzlement or thefts. First American banks were not engaged in money laundering. BCCI never secured any improper financial favors or advantages from First American. United States taxpayers have not had to bail out the Company.

We are proud of our accomplishments at First American, and secure in the knowledge that whatever concealed interest BCCI may have held in the Company's stock, any such interest never translated into actual control over First American's operations.

We will continue to cooperate fully with all official inquiries into this matter, and appreciate the opportunity the Committee has afforded us to set forth on the public record the First American story.

FOOTNOTES

- Hearing on the Bank of Credit and Commerce International and S. 1019 Before the Subcommittee on Consumer and Regulatory Affairs of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate (May 23, 1991) (hereinafter "May 23, 1991 Senate Hearing") (Statement of William Taylor, Staff Director, Division of Banking Supervision and Regulation, Federal Reserve System) (Transcript p. 140).
- 2 London's fastest-growing bank, The Economist, July 16, 1977, at p. 120.
- 3 Id.
- BCCI's Rise Based on Unique Management Style, Washington Star, Oct. 22, 1978, at A-15.
- When Bank of America sold its BCCI shares, it issued a press release to deny reports that its divestiture related to concerns about BCCI or its management practices. Bank of America Press Release, Sept. 1, 1978.
- 6 BCCI's Rise Based on Unique Management Style, Washington Star, Oct. 22, 1978, at A-15.
- 7 Prospectus, U.S. \$50,000,000 Guaranteed Floating Rate Notes due 1990, unconditionally and irrevocably guaranteed as to payment of principal and interest by BCCI Holdings (Luxembourg) S.A. (Nov. 22, 1983).
- 8 We were aware that there was regulatory concern about BCCI's corporate structure; BCCI lacked a single consolidated regulatory authority which would serve as its lender of last resort. These concerns, however, did not relate to questions about fraudulent practices or illegalities at BCCI.
- 9 See BCCI: The Inside Story, The Independent, July 14, 1991, at 2.

- 10 See Report of the Staff of the Subcommittee on Crime and Criminal Justice of the Judiciary Committee, U.S. House of Representatives, Regarding Federal Law Enforcement's Handling of Allegations Involving the Bank of Credit and Commerce International (Sept. 5, 1991).
- See Transcript of Meeting Before the Board of Governors of the Federal Reserve System, regarding applications of Credit and Commerce American Holdings and Credit and Commerce American Investment, to acquire Financial General Bankshares, Inc. (April 23, 1981) (hereinafter "April 23, 1981 Federal Reserve Transcript").
- 12 Affidavit of Martin Lipton (Aug. 9, 1991) (hereinafter "Lipton Affidavit"), ¶ 10.
- 13 Id.
- Hearings on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, U.S. Senate (Aug. 1, 1991) (afternoon session) (hereinafter "August 1, 1991 Senate Hearing") (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 58).
- 15 Lipton Affidavit, ¶ 4.
- See generally April 23, 1981 Federal Reserve Transcript; Application to the Board of Governors of the Federal Reserve System for prior approval of action to become a bank holding company (Oct. 3, 1980).
- 17 Letter from Robert A. Altman to Lloyd M. Bostian, Jr., Vice President, Federal Reserve Bank of Richmond (Nov. 24, 1978) (copy to William W. Wiles, Federal Reserve Board).
- 18 As late as April 1990, BCCI's internal auditors reported to senior BCCI management that their review of BCCI's files and papers, and interviews, had revealed that

In 1982, when CCAH acquired First American Bank shares via two intermediate bank holding companies set up for this purpose (CCAI and FAC), the acquisition was wholly funded by the shareholders of CCAH from their own resources plus a US\$50 million syndicated bank term loan which was obtained by (FAC) First American Corporation.

Hearing on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, U.S. Senate (Aug. 8, 1991), Exh. 6, p. 13, ¶ 1.00 (emphasis added and omitted).

- As Virgil Mattingly, the General Counsel of the Federal Reserve, recently testified before the Senate Subcommittee on Terrorism, Narcotics and International Operations, there is a legal distinction between control over bank stock and control over the day-to-day management of a bank. August 1, 1991 Senate Hearing (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 46). Even if, as has been alleged, BCCI acquired a secret ownership interest in the stock of First American's parent company, that stock ownership cannot be equated with actual control over First American's management and operations.
- Price Waterhouse Audit Report on BCCI under Section 41 of the Banking Act 1987, submitted to the Bank of England (June 22, 1991) at p. 25, ¶ 6.4 (emphasis added).
- 21 Indeed, BCCI had a prior employment relationship with only four of the 6,284 individuals employed by First American over the last nine years.
- 22 Affidavit of William Duncan (Aug. 9, 1991), ¶¶ 10,
 11.
- 23 May 23, 1991 Senate Hearing (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 99).

- 24 <u>Id</u>. (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 98).
- 25 Id. (Statement of William Taylor, Staff Director, Division of Banking Supervision and Regulation, Federal Reserve System) (Transcript p. 140).
- Assets increased 41 percent and deposits increased by 39 percent during 1983. In 1984, assets grew by 26.7 percent and deposits increased by 32.7 percent. In 1985, assets increased by 20 percent and deposits increased by 21 percent.
- 27 It is noted, for example, that the top officers of the other two major regional bank holding companies in Washington are reported to earn an annual salary of almost \$1 million, plus benefits and perquisites.
- 28 It is apparent that Mr. Hammoud had developed serious interest in First American, and purchased shares at each opportunity in 1986, 1987, 1988 and 1989. By purchasing our shares, he could purchase additional shares in subsequent rights offerings at book value and "average down" his cost.
- 29 United States v. Awan, et. al, No. 88-330-Cr-T-13(B) (M.D. Fla.), Exh. 508-B, p. 13 (Transcript of tape recording made Sept. 9, 1988).
- Nightline: Jimmy Carter's Relationship with BCCI (ABC television broadcast, Aug. 8, 1991) (Show #2664) at p. 3.
- 31 BCCI Adept at Courting the Powerful and Rich, Washington Post, Aug. 7, 1991, at A-1.
- 32 May 23, 1991 Senate Hearing (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 102).

ATTACHMENTS TO
STATEMENT OF CLARK M. CLIFFORD AND
ROBERT A. ALTMAN BEFORE THE
COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS,
UNITED STATES HOUSE OF REPRESENTATIVES

September 11, 1991

INDEX OF ATTACHMENTS

- A. Letter from Alan R. Cohen, State of New York, Banking Department, to Benjamin S. Rosenthal, Chairman, Commerce, Consumer & Monetary Affairs Subcommittee, House of Representatives (Oct. 12, 1982).
- B. Foreign Government and Foreign Investor Control of U.S. Banks: Hearing Before the Subcommittee on Commerce, Consumer and Monetary Affairs of the Committee on Government, U.S. House of Representatives (Sept. 30, 1982) (Statement of Henry C. Wallich, Member, Board of Governors of the Federal Reserve System).
- C. Letter from Gerald Lewis, Office of Comptroller, Department of Banking and Finance, State of Florida to Agha Hasan Abedi, Director and President, Bank of Credit and Commerce International (Dec. 18, 1985).
- D. Letter from G. Bechaalany to R. Altman (Aug. 26, 1981); Letter from Stephen P. Munn to Robert A. Altman (Aug. 24, 1981).
- E. Proxy signed by Abdul Raouf Khalil (July 10, 1984); proxy signed by Skeikh Humaid Bin Rashid al-Naomi (July 10, 1984); proxy signed by El Sayed El Gohari (July 10, 1984); proxy signed by Ali Mohammad Shorafa (July 12, 1984); proxy signed by Sheikh Khalifa Bin Zaied al-Nahyan (July 12, 1984); proxy signed by Ali Mohammad Shorafa (1985); proxy signed by H. E. Sheikh Khalifa Bin Zaied al-Nahyan (Aug. 24, 1985); proxy authorized by Mashriq Holding Company, signed by Bob Bernard and Charles Lahyr (Aug. 6, 1987); proxy authorized by Mashriq Holding Company, signed by Bob Bernard and Charles Lahyr (Oct. 10, 1988); proxy authorized by Adham Corporation, signed by H. E. Sheikh Kamal I. Adham (Dec. 20, 1990); proxy signed by H. E. Sheikh Kamal I. Adham (Dec. 20, 1990); proxy signed by H. E. Ali Mohammad Shorafa (Dec. 16, 1990); and proxy signed by Faisal Saud al-Fulaij (Dec. 20, 1990).
- F. Hill and Knowlton release addressing the issues concerning Mr. Clifford's and Mr. Altman's ownership of the First American stock.



STATE OF NEW YORK BANKING DEPARTMENT TWO WORLD TRADE CENTER NEW YORK, N.Y. 10047

MEAN R. COMEN

. October 12, 1982-

Honorable Benjamin S. Rosenthal Chairman Commerce, Consumer & Monetary Affairs Subcommittee House of Representatives Rayburn House Office Building Room B-377 Washington, D. C. 20515

Dear Congressman Rosenthal:

CONGRESSMAN BEN ROBENTHAL
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At the public hearing held by your committee on September 30, you requested that the New York State Banking Department supply you with information concerning the investigation of the investors who applied for permission to acquire control of First American Bankshares, Inc. (First American), formerly known as Financial General Bankshares, Inc.

A review of our records indicates that we made a thorough investigation and that we obtained sufficient information to determine that the investors' character and financial responsibility warranted approval of the application.

The investors had to comply with the stringent information requirements of the Banking Department's Supervisory Procedure CB 117 (copy attached) which provides for an extensive probe into the financial and personal affairs of individual applicants. Among the data required under CB 117 are curricula vitae, employment histories, disclosures of previous or pending civil or criminal proceedings, banking relationships, descriptions of the sources of funds for the proposed investment, details of applicants' businesses, three-year financial statements, explanations of the accounting principles used in their preparation and a description of the qualifications of the accountants who prepared them.

The material submitted under CB 117 was further supplemented by a long list of additional information which we subsequently; requested and obtained from applicants. This included interim; financial statements, additional bank and non-bank references, further details on their business connections, elaboration of significant items on their financial statements, and background data on the home countries of the applicants.

We also worked closely with the staff of the Federal Reserve Board, who were investigating the same investors, and exchanged information with them continually. They, of course, had at their disposal the vast investigative resources of the federal government. Through them we established contacts at the U. S. State Department and the U. S. Department of Commerce from whom we cotained valuable information about the investors and about their home countries.

Finally, we utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank. Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information we have received, and were able to supply us with additional information as well.

From none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary, all the information we received indicated that the investors were prestigious and reputable people.

Pinally, it should be noted that this application received more scrutiny from more regulatory agencies than any other in recent memory. Over a period of four years, the application was scrutinized by the Federal Reserve Board, the Comptroller of the Currency, the Securities and Exchange Commission, and the banking authorities of the states of Maryland, Virginia and Tennessee as well as New York. Mone of the regulatory agencies involved found anything derogatory about any of the investors, nor did the L. rmer top management of Financial General, who fought the takeover for almost three years.

To reiterate, our investigation was thorough and explored all available sources of information. Our conclusions were consistent with all the standards and criteria set forth in the New York Banking Law.

I want to thank you for this opportunity to set the record straight on this matter.

Jours truly, An R. Colm

Encl.

FOREIGN GOVERNMENT AND FOREIGN INVESTOR CONTROL OF U.S. BANKS

HEARING

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 30, 1982

Printed for the use of the Committee on Government Operations



Mr. ROSENTHAL. All right, Mr. Daub.

Mr. Wallich, we are very anxious to hear from you.

STATEMENT OF HENRY C. WALLICH, MEMBER, FEDERAL RESERVE BOARD

Mr. WALLICH. Mr. Chairman, I understand that you would like me to summarize some parts of my statement.

Mr. ROSENTHAL. Yes. Without objection, a copy of your entire

prepared statement will be inserted in the record.

Mr. Wallich. I will begin by saying that this is the third time I have been privileged to appear before your subcommittee. There were large acquisitions at the time when I appeared previously. The interest of foreign countries in U.S. banks has continued, although on a lesser scale recently. At the present time we have a situation where 134 banks are controlled by foreign banking organizations and foreign investors.

The performance of these foreign banking organizations has been studied very carefully on a quantitative scale. The principal findings are easy to summarize because, just as Mr. Kohn said, the differences between domestically run and foreign run institutions

after they become foreign owned are small.

What we have found is that banks that became foreign owned typically before their acquisition had lower earnings and lower equity ratios than their peer group. In other words that was the type of bank that was being bought. Following acquisitions, earnings generally improved, although not up to peer levels. Equity levels were raised to peer levels as a result of infusions of capital. The business orientation of the acquired banks did not change materially. There was somewhat less emphasis on retail lending as a proportion of total, reflecting a greater diversification of the lending portfolio.

Within the whole group of foreign-controlled banks, the greatest improvements in earnings and the largest increases in capital took place at banks that were acquired by foreign individuals. However, their earnings were low at the time they were being acquired.

I want to say a few words about supervisory experience. One can judge that from the point of view of the performance of a bank. I have cited equity ratios and earnings. There is some further evidence available from ratings that are assigned by supervisory agencies. Of the 52 banks that appeared in a given sample that was reviewed, there were 40 that had strong composite ratings for financial soundness. There was a very small proportion that was unsatisfactory. In other words, the picture is not at all bad there.

The record of compliance is more difficult to measure. Every bank in the United States has some occasional incident of a violation of law. This is easily corrected as a result of the examination process. Foreign-owned banks are no different in this regard. On the whole I think one can say that compliance in foreign banks is as good as it is in domestic banks.

I will skip the section on supervision, which describes our techniques, Mr. Chairman, with which I think you are familiar. I will go on to page 7.

Most foreign bank holding companies are foreign banking organizations, that is banks abroad. They are usually the major banks in their home countries. They are supervised by foreign banking authorities. They have recognized reputations. For these reasons, the Board has not been confronted with serious problems in supervising U.S. activities of these bank holding companies.

Mr. ROSENTHAL. Let me ask you one question. When you say they are supervised by foreign banking authorities, is that supervision of the same character and stringency as the type of supervi-

sion I would like to think we have here?

Mr. Wallich. We are proud to think that ours is more intensive, and there is a specific difference in that ours rests on examination, typically annual, of a bank, going through their books, going through their portfolio. Few other countries do that.

It also must be recognized that we have a very large number of banks, and among those you might always find some that need this kind of attention. Foreign banking systems are much more concentrated as a rule than ours. Nevertheless, I think you can say a lot on behalf of American bank supervision.

When we are we dealing with foreign individuals, certain supervisory problems do arise. One supervisory problem relates to the initial entry of foreign investors trying to acquire or establish a bank. The other relates to the continuing operations of their banks.

On the question of entry, I might just note that the principal problem is to ascertain the financial strengths and reputation of the would-be foreign owners. This is not a unique problem internationally. It is a problem that faces the Office of the Comptroller of the Currency when foreign investors seek to charter a national bank. It is a problem encountered by all three Federal banking agencies under the Change in Bank Control Act when there is an effort of a foreign investor to acquire more than 10 percent of an existing bank and become a large, distinguished shareholder.

The relevant banking agency has to determine the investor's condition, and status and the ability to make such a determination is necessarily complicated by distance and differences in foreign con-

ditions and standards.

On the second question of continuing supervision of foreign individuals, there is the problem of assuring that the bank is managed well and that it is not used for the benefit of the foreign owners to the detriment of the condition of the bank. Individual investors, by comparison with banking organizations, may not have the same interest in preserving the banking reputation.

The first line of defense on this point is to limit entry to persons of undoubted integrity and banking experience. On the whole, as described earlier, the banks owned by foreign individuals have been managed well and have posed few supervisory problems. How-

ever, there have been exceptions.

If I may turn to Federal Reserve procedures on applications made by foreigners seeking to acquire U.S. banking organizations, we have the Bank Holding Company Act which provides several criteria that the Board is required to consider in judging all bank holding company applications. These are, first, the financial and managerial resources of the acquiring company and the bank to be acquired; second, the future prospects of each; third, the conven-

ience and needs of the community to be served; and fourth, the effects of the proposal on competition.

Similar criteria are to be considered by the banking agencies under the Change in Bank Control Act. These criteria apply both to foreign and domestic acquisitions.

When an application is received by the Federal Reserve from foreign banking organizations or foreign individuals or foreign bank holding companies, the same general procedures are followed, and the same general information is required as if domestic organizations or domestic individuals were involved. Also, a concerted effort is made to obtain additional information that will enable an evaluation of the applying foreign banking organization to be viewed against the environment in which it operates in its home country. In the case of foreign individuals, they are required to submit financial statements and other information sufficient to assess their ability to manage a banking organization and to stand behind the acquired bank.

Contact is usually made with the appropriate foreign supervisory authority about the condition and reputation of the foreign applicant. When a foreign banking organization is involved, this procedure is in keeping with a broad agreement reached among the central banks and bank supervisory authorities of the G-10 countries and Switzerland that the foreign banks operating within their territories should be adequately supervised institutions in their home countries and that the home country supervisors should supervise the activities of their banks on a consolidated basis.

Now I come to the main acquisitions that are listed in your statement, Mr. Chairman. The three cases are, first, the Crocker National Corp. acquired by Midland Bank Ltd.; second, Financial General Bankshares acquired by a group of Middle Eastern investors; third, the acquisition of Long Island Trust Co. Bancorporation by Banca Commerciale Italiana. My remarks will be confined to the highlights of each case. More details are contained in the Board's orders approving these acquisitions, which is included in my testimony.

In early 1981, Midland Bank, one of the major London clearing banks, applied to acquire a majority interest in Crocker National Corp., whose principal subsidiary bank and principal asset is Crocker National Bank. At the time Midland had total deposits of \$55 billion and was the third largest bank in the United Kingdom. Crocker National Bank had total assets of \$19 billion and was the fourth largest bank in California and the twelfth largest in the United States.

Under the proposal, Midland Bank would immediately acquire 51 percent of the stock of Crocker National Corp. with the intention of ultimately acquiring 57 percent. The end result of the acquisition would be an infusion of \$495 million in new capital into the Crocker National Corp.

At the time of the application Midland Bank had no operating banking presence in the United States. Its only representation was as a part owner of European American Bank and Trust Co., a consortium bank in New York owned by six banks from different European countries.

Although the acquisition of a large U.S. bank was involved, there were virtually no issues presented by the application under the criteria specified in the Bank Holding Company Act. There were no adverse competitive factors in the application since Midland Bank had no direct banking operations in California or elsewhere in the United States. Midland Bank was in strong financial condition, and its reputation as an international bank was undoubted. The proposed capital infusion was regarded as a factor weighing in favor of the approval.

In approving the bank acquisition the Board had also to consider the other activities of the Midland Bank organization in the United States and their consistency with the requirements of the Bank Holding Company Act. As a result the Board order approving the bank holding company formation required that Midland divest its 20 percent interest in European American Bank on the grounds that retention would be inconsistent with the policy underlying section 3(d) of the act. Under that section bank holding companies are effectively barred from acquiring more than 5 percent of the shares of a bank in another State. The Board also denied an exemption from the prohibitions of section 4 of the act for the activities of the U.S. subsidiary of Thomas Cook Ltd. That company provides retail and wholesale travel services in the United States, an activity which the Board has found as not closely related to banking.

I next will turn to Financial General Bankshares. Financial General Bankshares is a multi-State bank holding company with 12 banks located in the District of Columbia and the States of Maryland, New York, Tennessee, and Virginia. In November 1978 the first applications to acquire this holding company were made by Credit and Commerce American Holdings of the Netherlands Antilles and Credit and Commerce American Investment of the Netherlands. The two applicant companies were formed by a group of individual investors from several Middle Eastern countries for the

purpose of the acquisition. A protracted process ensued.

The proposed acquisition was at first opposed by existing management of Financial General and its subsidiary banks. Moreover, two of the State banking supervisors involved, Virginia and Tennessee, recommended denial on the grounds that the acquisition would be detrimental to the convenience and needs of the communities served. In addition the attorney general of the State of Maryland issued an opinion that Maryland State law precluded a Maryland banking institution from being subject to an unfriendly affiliation. In these circumstances, the Board dismissed the first applications on the grounds that it was prohibited from approving a proposal that would violate State law.

These complications were subsequently resolved, and a new application was filed in November 1980. While a number of technical issues remained, the principal issue for the Board then became the identity of the purchasers, their reputation and their financial strength, and what those attributes meant for the future oper-

ations of the bank holding company.

The Middle Eastern investor group consisted of 14 individuals and companies from Saudi Arabia, the United Arab Emirates, and Kuwait. The group included eight individuals, three personal holding companies, two government-owned companies, and one private

company. In the course of processing the application, a meeting was held at the Board's offices which was attended by representatives of the investor group, counsel for the applicants, and representatives of the State banking departments involved, and the Comptroller of the Currency.

The information developed at this meeting became part of the record on which the Board based its decision. In making that decision the Board took special care to review the financial resources of all the investors. The information submitted demonstrated that all the investors possessed sufficient financial resources to make the

acquisition and to provide future support if needed.

The financial factors relating to the acquisition of Financial General were considered to be consistent with approval. As far as management was concerned the investors did not propose to take an active role themselves. Rather, they proposed to have all the director and top management positions filled by qualified Americans. The Board carefully reviewed the composition of the proposed board of directors of Financial General and the proposed senior management and satisfied itself about their qualifications.

The Board approved the acquisition on August 25, 1981. The transaction was consummated in April 1982, and the name of the organization was subsequently changed to First American Bank-

shares.

Mr. ROSENTHAL. Mr. Wallich, can you tell us just a little bit how you checked to verify the backgrounds, the character, the integrity,

the financial resources of the individuals?

Mr. Wallich. The Board worked very hard at this because, as my testimony says, this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source.

We also, of course, obtained bank statements. We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named ac-

countants of the Big Eight.

So we did what I think is humanly possible to develop detailed information on these individuals. In human affairs nothing is ever completely sure, but a credit check of this kind is of course not an unfamiliar thing. It happens all the time in business. The people involved here are businessmen. They are looked at often by the business community. So it by no means is impossible to get a full dosier on them.

Mr. ROSENTHAL. It interests me that they formed two groups, one in the Netherlands Antilles and one in the Netherlands. Did you look into that at all? Were you able to get any information from

the Netherlands Antilles?

Mr. Wallich. This is a familiar device relating to, as I understand it—and I am not a tax expert—two separate tax treaties that the United States has with the Netherlands Antilles on one side and Holland on the other.

Mr. ROSENTHAL. That is what I was coming to. These individuals, would they be able to avoid U.S. taxes that U.S. citizens would have to pay?

Mr. Wallich. They would not be able to do anything that somebody in the situation would not be able to do.

Mr. ROSENTHAL. That is, if they use the Netherlands Antilles.

Mr. Wallich. A U.S. citizen may not be able to do that because he is subject to a different home tax law. However, if one starts out as a foreigner, these opportunities are open. I cannot speak with authority to this, Mr. Chairman. I am not a tax lawyer. All I can tell you is that it is a familiar, frequently used technique.

Mr. Rosenthal. I am just curious as to whether there is a loss to the U.S. Treasury in tax payments as a result of these individuals

becoming shareholders.

Mr. Wallich. The U.S. Treasury negotiated these tax treaties, so

there are probably some losses and some gains.

Mr. ROSENTHAL. The Treasury is trying to renegotiate all those treaties. You still have not told us the extent of your investigation of the character and integrity of the individuals. You told us you used all the resources that are at your command, both foreign and domestic, and many U.S. agencies. However, why is that kind of an investigation less fulfilling than if you had to make an investigation of a U.S. citizen?

Mr. Wallich. I would think it certainly involved a greater effort and more input of resources than one would on a U.S. citizen. Admittedly, abroad it is less easy to get a clear picture.

Mr. ROSENTHAL. Did you send any people overseas to the home

countries of these folks?

Mr. Wallich. I do not recall.

Mr. ROSENTHAL. I still do not understand exactly what you did

Mr. Wallich. Some sources of information close up if one refers to them publicly. So just allow me to say that we used all sources that were at our disposal. I think a very unusual effort was put into this because of the importance of getting a clear picture. After putting it all together and getting the cross-checks, we arrived at the conclusion that these were satisfactory.

Mr. Rosenthal. In other words you did not send any investigators out to interview these people or to look into their backgrounds

or anything like that.

Mr. Wallich. We saw some of them in Washington. We had a meeting which the law did not call for, but we thought it was desirable. They were represented by counsel and in part appeared in person.

Mr. Rosenthal. Did you ask them any personal questions at the

meeting?

Mr. WALLICH. There is a detailed record of the whole thing which became part of the record of the proceedings.

Mr. Rosenthal. Please continue with your statement.

Mr. Wallich. I now turn to Litco, which in a sense I think presents the most important issues for the Congress to think about.

In December 1981 Banca Commerciale Italiana [BCI] applied to the Board to acquire Litco, the Long Island Trust Co. Bancorporation of New York, a bank holding company owning all of the shares of Long Island Trust Co. Long Island Trust Co. had about \$1.1 billion in assets, and its business orientation was primarily directed to domestic business in the Metropolitan New York area.

BCI was the second largest bank in Italy. It had consolidated assets of about \$34.5 billion. BCI conducted a wholesale banking business in the United States through branches in New York and Chicago and through an agency in Los Angeles. BCI is indirectly owned by the Italian Government through a Government holding

company, the Instituto per la Ricostruzione [IRI].

In this case as with the Midland/Crocker acquisition, there were few issues under the statutory factors that are prescribed in the Bank Holding Company Act. The Board found that the acquisition would have no significantly adverse effect on the concentration of banking resources or on existing potential competition. BCI had committed to inject \$20 million of foreign capital into Litco and to maintain Litco among the more strongly capitalized institutions in the United States.

As for BCI itself the Board made its evaluation on the basis of its policy statement on supervision of foreign bank holding companies that takes a number of factors into account in judging the financial and managerial resources of a foreign banking organization. In addition to its financial condition, these included the record and integrity of management, the bank's standing and role in its home country, and the opinion of the home country regulators. Having considered these factors the Board concluded that the financial and managerial resources of BCI were satisfactory.

During the Board's consideration of this case, several issues emerged that stemmed from the fact that BCI is indirectly owned by the Government of Italy. The four largest banks in Italy are nationalized institutions. All conduct banking operations in several States in the United States. The Italian Government also operates a number of nationalized industries and commercial enterprises,

many of which have subsidiaries in the United States.

The specific question that arose in these circumstances was how foreign governments or governmental entities should be treated under the Bank Holding Company Act. Should they be subject to the same provisions as a private company, or is a different treatment warranted?

The principle of national treatment is the basic Government policy toward foreign banks and is embodied in the International Banking Act of 1978. The essence of that principle is that foreign banking organizations and their owners be treated the same as their domestic counterparts. The Bank Holding Company Act which governs the activities of domestic banking organizations has among its purposes the prevention of conflicts of interest and undue concentration of resources. These objectives are intended to help insure that banks of the United States serve as effective and impartial credit intermediaries.

To this end the act provides that a private company cannot own a U.S. bank and also own companies in the United States that engage in industrial and commercial activities. Also a private company cannot, as a general rule, own and operate banks in more than one State. These rules apply to all private companies, domestic or foreign, although for foreign private companies exceptions are allowed for indirect interests in the U.S. operations of foreign

commercial and industrial companies.

Application of these rules to a foreign government would mean that it could not indirectly own banks in more than one State. Similarly, the foreign government that indirectly owned a bank in the United States would have to conform its nonbanking activities in the United States to those permissible to a privately owned foreign banking organization.

Failure to apply these rules to foreign government-owned banks, it can be argued, would give those organizations advantages over their privately owned counterparts and thus would be inconsistent

with the principle of national treatment.

Distinctions can be drawn between private and government ownership and they may form a basis for differences in treatment. The Bank Holding Company Act presumes that all banks and nonbank companies under common ownership and control are operated as an integrated whole. That presumption stems from the act's objectives of avoiding conflicts of interest and undue concentration of resources when banking and nonbanking activities are combined under common control and management. This presumption also reflects experience, especially in the United States, that private companies do operate in this way.

Foreign countries that have nationalized banks and other enterprises have done so for a variety of historical and policy reasons. Some foreign governments do operate, and in fact have good policy reasons for so operating, the nationalized banks and nationalized businesses as separate entities. However, conditions vary from country to country and may change over time within a country with changes in political philosophy or in other circumstances. This diversity highlights the difficulty of establishing a policy suitable to all situations that avoids making arbitrary distinctions

among countries.

Little guidance on these questions is provided in the act. It expressly exempts from its application organizations owned by the Federal Government or State governments. However, it is silent on

the status of foreign governments.

The question of applying the act to foreign governments is not concerned with the activities they conduct within their own territories or outside the United States. It is solely concerned with those activities that extend into the United States. Applying the act to foreign governments even in the more limited sense has broad implications that extend beyond the purely regulatory issues. For example, strict application of the limitation on nonbanking activities could preclude foreign government-owned banks from engaging in banking activities in the United States. This could raise important questions in the fields of U.S. foreign relations and U.S. foreign investment and economic policy.

Prior to the BCI case the Board had approved a number of applications to form bank holding companies by foreign banks that were government-owned and where the foreign government indirectly had commercial and industrial activities in the United States. In those cases the Board did not apply the act to the applicant's government owners. After careful consideration and pending further examination of the issues outlined here, the Board decided to con-

tinue the previous practice in the BCI case.

In approving the application the Board recognized that the act is concerned not only with problems of actual conflicts of interest or concentration of resources but also with the potential for those problems. For this reason the Board in its order highlighted its belief that the issues associated with foreign government ownership should be brought to the attention of the public for further discussion and debate. Because of the complexity and far-reaching implications of these issues, some of which I have tried to convey, the Board stated in its order that they should be resolved in a congressional framework where all of the relevant considerations could be examined and weighed.

In recognition of the potential conflicts in the BCI case, the Board decided that Italian Government-owned banking and non-banking organizations were affiliates of LITCO. As a consequence, the amount limitations and collateral requirements of section 23A of the Federal Reserve Act would apply to extensions of credit by LITCO to these affiliates. The Board believes that the application of section 23A to this situation would help limit the potential for practices conflicting with the purposes of the Bank Holding Company Act.

Mr. Chairman, I believe I will conclude here. Thank you very much.

Mr. ROSENTHAL. Thank you, Mr. Wallich. [Mr. Wallich's prepared statement follows:]



OFFICE OF COMPTROLLER DEPARTMENT OF BANKING AND FINANCE STATE OF FLORIDA

TALLAHASSEE 32301

December 18, 1985

Mr. Agha Hasan Abedi Director and President Bank of Credit & Commerce International 100 Leadenhall Street London United Kingdom

Dear Mr. Abedi:

I am happy to have this opportunity to share with you my firm conviction that Florida is the most commercially attractive and viable state to locate and expand your bank's US activities.

The sizeable employment gains and income growth experienced by Florida in 1985 have maintained the state's expansion at a rate surpassing the nation's. Moreover, expected improvements in Latin American economic growth promise to reinforce Florida's economic growth by stimulating the state's international trade and tourism.

Florida enjoys a differential cost advantage over many other states. The costs of office and residential housing rentals, of parking and weekly wages are relatively low. The state's commercial banks' interest expense as a percentge of interest earning assets has been lower than that of the nation's commercial banks. This may in part be attributed to Florida's large and impressively growing deposit base associated with the state's expanding economy and population.

Between January and June 1985, more applications for national bank charters were approved and more charters issued in Florida than in California and New York combined. In addition, more de novo branches of national banks were opened, and acquired through merger or conversion in Florida than in any other state in the U.S.

Florida's business environment is strengthened by a positive governmental attitude towards direct foreign investment in the state. Florida has no personal income tax and its corporate income tax rate is lower than that of many states, including California and New York.

Mr. Agha Hasan Abedi Director and President Bank of Credit & Commerce International Page 2 December 18, 1985

The differential cost advantage, associated with Florida's comparatively low rental, wages and other costs, interest expense, large deposit base and low tax environment, has contributed to the high profitability of the state's insured commercial banks. In the 1980s, these banks have outperformed the nation's commercial banks as demonstrated by such profitability measures as their adjusted net interest margin, return on assets and return on equity.

So far, I have highlighted the general economic and commercial factors for locating your bank in Florida. There are also life style factors which may influence your decision to establish a commercial bank in Florida over other states in the U.S. In this respect, I want to refer to the state's educational, cultural, recreational and climatic factors which together will contribute to the quality of life of your bank's management and staff.

Florida ranks ninth in the nation in expenditures for public elementary and secondary education. There are 28 community colleges in the state offering degree programs and a broad selection of occupational programs as well. The state is rich in cultural resources. It is the home of 19 regional and municipal symphonies and its several statewide museums feature major collections. Finally, Florida's year round semi-tropical climate, moderate rainfall, abundant sunshine, fresh and sea waters, a relatively pollution-free environment - all combine to make the state an attractive and appealing place in which to live and do business.

I hope you will read the information included in this package. It includes details relating to the location decision in Florida, the state's economy, the number of national bank charter applications approved and branches of national banks opened or acquired, Florida's commercial banks' profitability and interstate banking act. Also included is my office's 1984 Annual Report on Banking in Florida.

I cannot stress too strongly my personal feeling that you should consider florida in your future plans. I offer my assistance and that of my staff in answering your questions. Please feel feee to call on us if we can assist you in any way.

Sincerely.

GERALD LEWIS



SEVEN-UP INTERNATIONAL, INC.

100 PARK AVENUE NEW YORK, N Y 10017

CABLE ADDRESS
POLD WEW YORK
TELES 7105614130

Mr R Altman Clifford & Warnke 815 Connecticut Avenue Washington D.C. 20006 U.S.A.

26th August, 1981

Dear Sir,

This letter serves to highly recommend His Excellency Sheikh Kamal Adham as an outstanding businessman with an excellent reputation for ability and integrity.

Our Company's long association with His Excellency as our Franchisee in the Kingdom of Saudi Arabia and Egypt, has been a pleasure for all those who had the opportunity to have direct business contacts with him, because of his high spirit of cooperation.

He has always displayed in addition to good business judgement, a thorough understanding of world affairs, specially the Middle East.

Yours faithfully,

G Bechaalany Vice President Seven-Up S.A.

Europe/Middle East/Africa

Carrier International Corporation

ireine)

2000 26

Slephen P. Muni

August 24, 1981

Robert A. Altman, Esq. Clifford & Warnke 815 Connecticut Avenue Washington, D.C. 20006

Dear Mr. Altman:

I am writing this reference letter on behalf of his Excellency Kamal Adham. I have known Kamal Adham since 1979 as he is a business partner with Carrier International Corporation.

In every respect I have found Kamal Adham to be a man of integrity with excellent moral and personal values... He has been instrumental in building our business, and I have found Kamal Adham to be an understanding, encouraging and pleasurable gentleman.

Without reservations, I highly recommend his Excellency Kamal Adham as an investor or business partner.

Sincerely

Stephen P. Munn

SPM/wee

Subscary of Canar Corporation į

· PO Box 4805. Syrecuse, New York 13221, Cables CARICOR, Telex 253995

PROXY

The undersigned	El Sayed El Gohari	, hereby author-
izes J. Berkvens and/o	r A. Grul, Attorneys at Law in	Curacao,
Netherlands Antilles,	to act as his/its proxy at the	Annual General
Meeting of shareholders	s of Credit and Commerce Ameri	can Holdings,
N.V. ("CCAH") to be he	ld in Caracao on or about July	16, 1984
with power to exercise	, as directed herein, the unde	rsigned's
voting rights with res	pect to <u>791</u> CCAH shares own	ed by the
undersigned and to vote	e such shares only in favour o	f the following
motions to be made at	that meting and for no other p	urpose :

- To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.
- To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects:
 - (a) To delete paragraph 3 of Article $\underline{4}$ and replace it by (translated) :
 - "3. The shares shall be issued by the board of managing directors".
 - (b) To delete paragraphs 1, 2 and 6 of Article 9 and replace them by (translated) :
 - "1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

- 2 -

(b)

- "2. The managing directors shall be appointed by the general meeting of share-holders and may at any time be suspended or removed from office by the meeting".
- "6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management. As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which
- (c) To delete Article 10 in its entirety.
- (d) . To delete paragraphs $\underline{1}$ and $\underline{7}$ of Article $\underline{12}$ and replace it by (translated) :

cannot be postponed".

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

(d)

- "7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".
- (e) To delete paragraphs $\underline{1}$ and $\underline{3}$ of Article $\underline{16}$ and replace it by (translated) :
- "1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account. • 4 -

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted.

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the aforegoing.

Given and executed in <u>Abu Dhabi</u> as of the <u>12th</u> day of <u>July</u>, 1984.

Ali Mohammad Shorafa (Shareholder)

PROXY

The undersigned, H.H. Sheikh Khalifa Bin Zaied El Nahyan, hereby authorizes J. Berkvens and/or I.C.J.F. Verhaert, Attorneys at Law in Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curaco on or about August 30, 1985, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 14,828 shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose:

- 1. To confirm and adopt the financial statements of CCAH for the year 1984 and discharge the Board of Managing Directors for their administration during that period.
- 2. To approve and ratify resolutions regarding the nondistribution of profits and retention of earnings for 1984, and the adjustment in the share premium reserve in the 1984 annual accounts.
- 3. To re-elect the following Managing Directors of CCAH. to serve the Company until the next annual general meeting of shareholders:

 - Stuart Symington (Chairman) Robert A. Altman (Secretary)
 - Clark M. Clifford
 - Elmwood R. Quesada
 - Etrusco International, N.V.
- 4. To appoint a person contemplated by Article 9. paragraph 6, of the Articles of Incorporation.

Given and executed in _	Abu Dhabi		as o	of the
24th day of	August	, 1985.		
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	, ~ '	Ve		

H.E. Sheikh Khalifa Bin Zaied El Nahyan

PROXY

The undersigned MASHRIQ HOLDING COMPANY, hereby authorise J. BERKVENS and/or I.C.J.F. VERHAERT, Attorneys at Law in Curação, Netherlands Antilles, and/or Mr H.M. KAZMI to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings N.V. (CCAH) to be held in Curação on or about August 7, 1987, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 21.660 shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose:

- To confirm and adopt the financial statements of CCAH for the years 1985 and 1986 and discharge the Board of Managing Directors for their administration during those years.
- 2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1985 and 1986, and the adjustment made in the share premium reserve in the 1985 and 1986 annual accounts.
- 3. To re-elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Stuart SYMINGTON (Chairman)
 - Robert A. ALTMAN (Secretary)
 - Clark M. CLIFFORD
 - Elwood R. QUESADA
 - Etrusse International, N.V.
- 4. To eliminate the provisions authorising bearer shares by amending the Articles of Incorporation of CCAH (the Articles) in the following respects:
 - a) To delete Article 6, paragraphs 1 and 2, of the Articles, and replace them with (translated):
 - "1. The shares shall be issued as registered shares, and they shall be numbered from 1."
 - "2. Share certificates may be issued for the registered shares, at the request of the shareholder. All expenses for the issue of share certificates shall be charged to the shareholder concerned."
 - b) To delete Article 6, paragraph 3, of the Articles.
 - c) To delete Article 8, paragraph 2, of the Articles, and replace it with (translated):

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- "2. Every transfer, transmission by descent or change of ownership of a registered share shall be recorded in the share register and every entry to that effect shall be signed by a managing director or by a person appointed for that purpose by the Board of managing directors."
- d) To delete Article 11, paragraph 6, of the Articles.
- 5. To authorise Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
- To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Luxembourg as of the sixth day of August, 1987

MASHRIQ HOLDING COMPANY

Bob BERNARD Charles LAHYE

Directors

MASHRIQ HOLDING COMPANY S.A. société anonyme

121, avenue de la Falencerie L-1511 LUXEMBOURG R.C.LUXEMBOURG B NO. 17.851

PROXY

The undersigned, Mashriq Holding Company, hereby authorise * Etrusco International N.V., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about October 14, 1988 with power to exercise, as directed herein, the undersigned's voting rights with respect to the 26,241 shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose:

- To confirm and adopt the financial statements of CCAH for the year 1987 and discharge the Board of Managing Directors for their administration during that year.
- To approve and ratify resolutions regarding the nondistribution of profits and retention of earnings for 1987, and the adjustment made in the share premium reserve in the 1987 annual accounts.
- 3. To re-elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Stuart Symington (Chairman)
 - Robert A. Altman (Secretary)
 - Clark M. Clifford
 - Elwood R. Quesada
 - Etrusco International, N.V.

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.../2

^{*} and/or Equilan N.V.

- 4. To eliminate the provision authorising bearer shares by amending the Articles of Incorporation of CCAH (the "Articles") in the following respects:
 - a) To delete Article 6, paragraphs 1 and 2 of the Articles, and replace them with (translated):
 - "1. The shares shall be issued as registered shares, and they shall be numbered from 1."
 - "2. Share certificates may be issued for the registered shares, at the request of the shareholder. All expenses for the issue of share certificates shall be charged to the shareholder concerned."
 - b) To delete Article 6, paragraph 3, of the Articles.
 - c) To delete Article 8, paragraph 2, of the Articles, and replace it with (translated):
 - "2. Every transfer, transmission by descent or change of ownership of a registered share shall be recorded in the share register and every entry to that effect shall be signed by a managing director or by a person appointed for that purpose by the board of managing directors."
 - d) To delete Article 11, paragraph 2, of the Articles and replace it with (translated):
 - *2. The meeting shall be called with due observance of at least 10 days notice not counting the day on which the letter in the next sentence is sent nor the day of the meeting.



"The shareholders shall be called to the annual general meeting of shareholders by at least registered air mail letters sent to the addresses specified in the share register. The convening notice shall either state the agenda of the meeting or it shall state that the agenda is available for inspection by the shareholders at the office of the corporation."

"Proposals on amendment of the articles of incorporation shall also be mentioned in the convening notice referred in this paragraph."

- e) To delete Article 11, paragraph 6, of the Articles.
- 5. To authorise Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before civil notary, and furthermore to perform anything required or appropriate to the foregoing.
- To appoint a person as contemplated by Article 9, paragraph
 of the Articles of Incorporation.

Given	and	executed	in	Luxembourg	•	as	of	the	tenth
day of	. 0	ctober		, 1988.					

MASHRIQ HOLDING COMPANY

Bob BERNARD

Director Director

Charles LAHYR

ADHAM CORPORATION

PROXY

The undersigned. ADHAM CORPORATION hereby authorizes Etrusco International. N.V. and/or Equilan N.V. of Curacao. Netherlands Antilles to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings. N.V. (CCAH) to be held in Curacao on or about December 21.1990 . and/or any follow-up meeting with the same agenda. with power to exercise. as directed herein, the undersigned's voting rights with respect to the 7.410 Shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

- 1 To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
- 2 To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989 .
- 3 To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.

u.A.

ADHAM CORPORATION

- 4 To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles. In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders meeting within seven(7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.
- 5 To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
- 6 To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given	and	executed	in Jeddah,	Saudi Arabia		as	of	the	
		h ·	:::	day of	December, 1990	•		••	

ADHAM CORPORATION

Attachment

PRQXX

The undersigned, H.E. Ali Mohammad Shorafa hereby authorizes Etrusco International, N.V. and/or Equilan N.V., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the __28.748_ shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

- To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
- To approve and ratify resolutions regarding the 2. non-distribution of profits and retention of earnings for 1989.
- To elect the following Managing Directors of CCAH, З. to serve the Company until the next annual general meeting of shareholders:

 - Clark M. Clifford (Chairman)
 Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.
- To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

- 5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
- To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Abu Dhabi, U.A.E., as of the 16th

H.E. Ali Menammad Shorafa

Attachment

day of December, 1990.

PRQXX

The undersigned, Faisal Saud al Fulaij

hereby authorizes Etrusco International, N.V. and/or Equilan N.V., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the _26.439_ shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

- To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
- To approve and ratify resolutions regarding the 2. non-distribution of profits and retention of earnings for 1989.
- To elect the following Managing Directors of CCAK, to serve the Company until the next annual general meeting of shereholders: 3.

 - Clark M. Clifford (Chairman) Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.
- To authorise the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

- 5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and executs the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
- To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in	, as of the 20th
day of December, 1990.	
	Faisal Saud al Fulaij

Attachment

HILLA J KNOWLTON

Recent questions have been received concerning stock ownership in First American by Mr. Clark Clifford and Mr. Robert Altman. Absent compelling reasons for public disclosure, Messrs. Clifford and Altman consider their financial affairs to be private and confidential. Nevertheless, in the interest of a full understanding of the facts and to avoid unwarranted speculation or error, the following compilation of facts has been prepared on this subject.

Clark Clifford was asked by the shareholders and Board to serve as Chairman of First American in 1982 in connection with the acquisition of the Company. When he accepted the position, he informed them that while he intended to devote his energies to building and revitalizing the Company, he was aware that success was not assured and was therefore not prepared to accept a large salary. He and the Board agreed that he would accept a payment of \$50,000 per year. This has remained unchanged for the past nine years. "

It was Mr. Clifford's feeling that if he and his partner, Robert Altman (who was to become president of First American Corporation, but without salary), were successful in developing the potential of the franchise, and able to increase substantially the value of the stockholders' investment, he would expect that later on he and Mr. Altman would be given the opportunity to acquire stock in the Company. In that way they might profit from their efforts. In effect, they took on

[&]quot;Neither Mr. Clifford nor Mr. Altman has received any of the perquisites such as use of corporate aircraft, life or health insurance, club memberships, profit sharing arrangements, pensions, or cash bonuses which are usually a part of compensation packages for individuals in similar senior positions in banking. Mr. Clifford, as Chairman, was provided access to a company car beginning mid-1987. Mr. Altman has never had a company car.

HILLAI KNOWLTON

- 2 -

the task on a contingent basis. -- '

The first four years were a period of intense effort by Mr. Clifford and Mr. Altman with major investments of their time and energy. Each bank was carefully analyzed, and a close association with the directors, officers, and employees was developed. Basic bank strategies, financial targets, and operating procedures were set, and additional banking professionals were recruited to supplement the existing officer group. The banks began to flourish. Substantial growth came from within, but also some strategic acquisitions were made, particularly in New York and Virginia.

By 1986, it was clear that the project was thriving under the stewardship of Messrs. Clifford and Altman, and successful years lay ahead. In those four years, assets had increased from \$2.3 billion to \$7.2 billion. Deposits grew from \$1.8 billion to \$5.9 billion. Annual income had doubled from \$20 million to \$41 million. The profit to the shareholders on their investment was large and growing. Given this degree of progress, it then appeared appropriate to Messrs. Clifford and Altman, and to the Board and shareholders, for each of them to acquire stock in the Company.

As the Company grew, funds needed for expansion were raised by periodic rights offerings to the shareholders. (The first such offering took place in 1983.) In 1986 a rights offering of \$150 million was made. If an offering was undersubscribed by the existing shareholders, the shares not purchased would be offered by the Board, at its discretion, to other persons at the same price. This occurred in the 1986 offering, which gave Messrs. Clifford and Altman the opportunity to purchase some of the unsubscribed shares. Mr.

The firm of Clifford & Warnke has served as general counsel to First American and its parent holding companies — which do not have in-house corporate legal affairs departments — since 1982 with Board and shareholder approval. Appropriate bills have been submitted for legal services rendered in accordance with firm practice. A number of other highly regarded law firms also have rendered ongoing legal services and advice to First American and its parent companies over the years. Mr. Clifford and Mr. Altman have participated in the partnership income of Clifford & Warnke as members of the firm.

Clifford & Warnke's representation of the shareholders had existed for some four years prior to 1982. The legal representation of First American would have occurred after the acquisition without regard to whether Mr. Clifford and Mr. Altman accepted corporate positions at the Company.

HILLA KNOWLTON

- 3 -

Clifford bought 4495 shares for \$9.9 million and Mr. Altman bought 2247 shares for \$4.9 million. First American shareholders encouraged the purchases, and the directors of First American's holding company approved the transactions. Such ownernsip was also reported to the Federal Reserve and appropriate state banking authorities in annual filings made by First American.

The price paid for the shares by Messrs. Clifford and Altman was exactly the same price that was paid by all the shareholders -- book value. Selling stock at book value to raise capital is a practice that was followed in all First American offerings; the same practice was followed by First American's subsidiary banks in selling shares to the public. Mr. Clifford and Mr. Altman never received any gifts of stock, stock options, incentive stock awards, or discounted purchase prices for stock.

After negotiating with two foreign banks, the purchases were financed by 18-month (Libor based) loans from BCCI - the bank that had served as the investment adviser and communications link to the shareholders of First American since the purchase of the Company. The loans were negotiated at arms length, with the advice and assistance of New York counsel to Clifford and Altman, and were concluded on a non-recourse basis, fully collateralized by pledges of the shares. To service the loans, substantial interest payments were made while the loans were outstanding, by both Messrs.

[&]quot;A question was raised concerning representations made to bank regulators in 1981 in connection with the acquisition of the Company that BCCI would not be a lender with respect to the "acquisition" by the investors of the shares of the Company. Counsel to First American has confirmed that this representation was intended to relate solely to the tender offer financing in 1982 to acquire the Company, and there was no blanket regulatory prohibition against later borrowings from BCCI or any other bank.

It should also be pointed out that throughout the time of these transactions there was no reason to consider the involvement of BCCI as a lender to be inappropriate or controversial. Indeed, given BCCI's familiarity with First American and its owners, it was in an excellent position to consider the value of the collateral being offered for the loan. The current notoriety about BCCI did not occur until late in 1988 in connection with charges of money laundering, and allegations that BCCI may have gained control over some First American stock at some time during the past nine years arose subsequently in 1989 and 1990.

HILL KNOWLTON

- 4 -

Clifford and Altman.

As a result of the purchases, Mr. Clifford and Mr. Altman had stock ownership that was consistent with customary share incentive plans for senior corporate officials in the United States. Messrs. Clifford and Altman retained legal title to the shares at all times, including voting rights.

In 1987, with First American continuing to thrive, Messrs. Clifford and Altman, as shareholders, participated in the next capital rights offering by the Company, each subscribing to his respective pro rata allotment of shares. Mr. Clifford bought 951 shares for approximately \$2.3 million, and Mr. Altman bought 475 shares for approximately \$1.15 million. Again, First American shareholders encouraged the purchases, and the directors of First American's parent company approved them. The ownership was again reported to the banking authorities. They were financed in a manner similar to the 1986 purchases.

In 1988 when First American was enjoying a record year and shares of banking companies similar to First American were trading at signifiant premiums, Messrs. Clifford and Altman decided to sell a portion of their holdings. By that time the shareholders had invested approximately \$550 million in First American; based on numerous, published banking transactions in the United States during this period, the Company was conservatively worth \$1.5 billion (based on a multiple of book value), leaving a potential profit for the shareholders, after only six years, of approximately \$1 billion.

In response to Messrs. Clifford and Altman's inquiry, another of the existing shareholders of the Company made an offer to purchase 4800 shares, for cash, at \$6,800 per share.—' We understand that other sales transactions in the stock between other shareholders were made at similar prices. We are informed, for example, that another transaction between investors occurred during this period at approximately \$6,100 per share. In March 1988 Mr. Clifford accepted the offer and sold 3200 shares representing

The purchaser later died in 1990 and his heirs now have claimed legal ownership of those holdings. At the time of this transaction, neither Mr. Clifford nor Mr. Altman knew whether the purchaser, a wealthy investor, had obtained financing for the purchase, or the source of any such financing. Nor was there any reason for them to have inquired as to these matters.

Recent information provided by the purchaser's estate representatives indicates that the purchaser has no personal loans from BCCI and that his First American shares are not pledged to BCCI. First American has no independent information about such matters. The shares, which were purchased in the shareholder's personal name, are claimed as the property of his estate.

HILLA KNOWITON

\$21,760,000.00

- 5 -

approximately 60% of his holdings; Mr. Altman sold 1600 shares representing approximately 60% of his holdings.***

On March 31, 1988, Messrs. Clifford and Altman received \$21,760,000 and \$10,880,000 respectively for the purchase of their stock. Using the proceeds of the sale, Messrs. Clifford and Altman paid off in full the principal and remaining interest on their loans that same day. As shown in the table below, after repaying all the indebtedness, commissions, and Federal and State taxes, Mr. Clifford's net cash from the sale was approximately \$2.75 million; and Mr. Altman had received approximately \$1.35 million. Each owned, and continues to own, the balance of his stock free and clear.

Clark M. Clifford

Amount Received

		422, ,
	Less: <u>Costs and expenses paid</u> Repaid Note of July 25, 1986 Repaid Note of August 14, 1987 Interest paid on loans Commission on sale Subtotal	(9,960,920.00) (2,310,930.00) (1,411,831.00) (1,500,000.00) \$ 6,576,319.00
	State and Federal Taxes (approx.) Net cash to Clark M. Clifford	(3,825,000.00) \$ 2,752,319.00
Robert A.	Altman	
	Amount Received	\$10,880,000.00
	Less: Costs and expenses paid Repaid Note of July 25, 1996 Repaid Note of August 14, 1987 Interest paid on loans Commission on sale Subtotal State and Federal Taxes (approx.) Net cash to Robert A. Altman	(4,979,352.00) (1,154,250.00) (725,289.00) (750,000.00) \$ 3,271,109.00 (1,918,000.00) 1,353,109.00
		2,220,200

^{—/} It is incorrect to assume that the shares retained by Clifford and Altman could be assigned the same value per share as those sold to one interested purchaser.

HILL AND KNOWLTON

- 6 -

In 1989 another rights offering was made to the shareholders. Again, Messrs. Clifford and Altman each purchased the pro rata number of shares available to them with the approval of the Company's directors; the resulting ownership was reported to the regulatory authorities. These purchases were not financed through any bank.

In 1990 a sale of \$30 million of convertible debentures was offered to shareholders. Again Mr. Clifford and Mr. Altman purchased their pro rata allotment of the debentures without financing from any bank. Mr. Clifford purchased a debenture with a face amount of approximately \$250,000 and Mr. Altman purchased a debenture of approximately \$125,000. Each continues to hold their debentures.

Mr. Clifford and Mr. Altman remain small shareholders of the Company, owning .83 and .41 percent, respectively, of the shares outstanding. Their stock ownership continues to be reported in annual filings with bank regulatory authorities. Mr. Clifford and Mr. Altman have continued to have all right, title, and interest in the shares registered in their respective names. There is no existing lien or claim against the shares by any person or entity. There is no way to place a value on Mr. Clifford's and Mr. Altman's present stock holdings because there is no market for the shares.

In summary, at least two points should be emphasized:

- 1) The financial benefits received by Mr. Clifford and Mr. Altman over the past nine years, however computed, are exceedingly reasonable when compared to executives in similar positions. It is also important to note the enormous value they have been central in creating for shareholders.
- 2) There was no reason at the time of these transactions for any one to consider the role played by BCCI to be remarkable or inappropriate. The transactions, including BCCI loans, were reviewed at the time by other legal counsel for Mr. Clifford and Mr. Altman who were familiar with the history of the case and all relevant factors.





Clark M. Corrord Chairman or the Board

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

C-2

August 12, 1985



Mr. Agha Hasan Abedi
President, Bank of Credit and
Commerce International, S.A.
100 Leadenhall Street
London, England EC3A 3AD

Dear Mr. Abedi:



This letter will give you the details of the manner in which we terminated the employment of Bruno Richter as President and CEO of the New York Bank.

Prior to my conference with Richter, I checked with each member of the Board of the New York Bank and ascertained that there was unanimous agreement that Richter did not have the requisite abilities to make a success of the Bank. Thereafter, I telephoned Richter and asked that he come to my office for a meeting. I also asked Robert Stevens to be present in his capacity as President of the holding company.

Prior to the meeting with Richter we had prepared a bill of particulars, setting forth eight areas in which Richter had been deficient in the management of the Bank. I enclose herewith for your attention a copy of this list. I explained to Richter that the time had come to sever the relationship and I read to him each of the items on the list.

Before concluding my presentation I advised Richter that we held no ill will toward him and explained that the Board had been deeply concerned at the lack of progress of the New York Bank and that this necessitated the action being taken. I informed Richter that it was my hope that the severance could be arranged amicably and that it could be handled through his resignation, rather than through a formal termination by the Board. I suggested that the reason for the resignation could be due to differences over policy and that it would certainly be best for Richter and his future career if we could agree upon terms of a resignation.



Mr. Agha Hasan Abedi August 12, 1985 Page Two

Richter responded at length to the listing of the deficiencies of his performance at the Bank and I did not interrupt, but heard him out to the end. Nothing new was brought to our attention. He stated that he appreciated the suggestion that he might resign and that he would like to work out a disposition on that basis. He stated that he would like to return to New York and consult his associates and his lawyer and that he would be back in touch with us.

Richter's lawyer called the next morning and at first took a harshly confrontational position and listed extreme demands for disposition of the controversy. In the course of the negotiations that extended over some five days, his demands became much more moderate and we entered an area of reasonable negotiation in which agreement could be reached. There were four major areas of dispute, but through the process of talking them out we reached agreement.

The agreement with Richter, which was concluded on August 9, is a fair one. We are meeting our major obligations under the contract of employment to pay him for a 3-month termination period, reimbursement for the remaining three years of the contract at fifty percent of his salary, and a pension arrangement that will prevent his sustaining a loss in his pension rights by coming with our Bank. I enclose a copy of the agreement between Richter and the New York Bank, together with copies of his letter of resignation and the Bank's reply.

Robert Stevens is taking an apartment in New York and will be Acting President and CEO during the period while we are searching for Richter's successor. Stevens is off to a good start with conferences with all the senior officers and this transition has gone smoothly. We have informed the various regulatory bodies who have an interest in this matter and because of the manner of the termination it is being treated by the regulators as a development which does not deserve their further attention. I have the feeling that the avoidance of controversy over the separation results in its being a non-event.

X

Because of your personal interest and the time we have spent in discussing this particular matter, I felt that it warranted this rather full explanation from me.

Cordially yours,

Enclosures

Clark M. Clifford

CONFIDENTIAL

C0000234

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

July 25 1983

Dear Mr. Naqvi,

This needs a lot of improvement, but please glance through and advise if all points are covered.

Copies of the check list and points for consideration for the existing branches of FABNY and branches of other banks we require are also encloses for sour records.

A copy of each has been provided to Mr. Should and Khusro, who has also team kept informed.

Thanks and regards,

Committee Note: Mr. Naqvi is the #2 man at

BCCI.

Mr. Afridi was hired by BCCI as an officer of First American Bank of New York

cc. Mr. Kemal Shoaib

INTRODUCTION

Informed observers of the U.S. banking scene are of the opinion that deregulation in current banking law and practice will become a reality in the very near future. The process has already started and the outcome can be predicted with a high degree of accuracy. It is likely that reciprocity amongst different states will be common in the 80's and, therefore, banks will open their doors (full-fledged service branches) all over the United States of America.

We should, therefore, cash the advantage of an Interstate Bank Holding Company. But, as ours will be a new venture in New York, we have to proceed with a high degree of caution. And, yet at the same time, find ways and means for growth in a highly competitive market. Our VISION entails and encompasses a full-fledged bank providing a comprehensive package of financial services and not that of a bank circumscribed by a narrow product range. We have to have an overall perspective of the setup, management, and of the limits that can be sought and which must be achieved over time. This concept of perspective is of vital importance and a critical success factor in present day U.S. banking. We require a total VISION for direction: Domestic, Retail, Wholesale

and International with most efficient service. ...



Sabject to and subject

Our people would be a partner and participant subject to and subject this Evolution.

Their role will be creating and supporting local management and the business opportunities, unobtrusively impercentibly gaining trust business opportunities, unobtrusively, imperceptibly, gaining trust and confidence - injecting Real Management power.

The important question of cast (mould/model):

Everyone has his own "cast".

Our role is to rupture the individual "casts" to allow flow and merger.

To do this, we ourselves should not have any cast, we should be open - open infinitely.

BCC's "cast" is an open "cast". fluid and flowing. infinite dynamic vision.

Cont'd.../2.

INTRODUCTION (Continued)...

Then there are issues of

Blind Management

Enlightened Management

Real Management

"Superior" Skills

"Superior Management" complex

The American tendency of "One Boss" and clash of "casts"

Vanity and ego

A test, a challenge to the participants!

There will be fierce competition from local as well as foreign banks operating in N.Y. which will increase. Selling will have to be done by our people going to the market - door to door - rather than expecting customers to come to the Bank. We will not only provide Statewide banking service but International too and we have to focus on Human Resources, Outlets, Sources of Business and Froduct Lines. Our or phasis should be on exploiting opportunities and to review better form than any other bank - locally as well as incernationally. We should treat the support from BCC separately and endeavour to develop on our own.

Human Resources are crucial. Although papers are available but there are not many who can manage others also. They should be technically

Human Resources are crucial. Although base e are available but there are not many who can manage others also. They should be technically qualified, competent, well-trained, experienced, loyal, sincere, hardworking and knowledgeable about the market. We must give them attractive terms. Proper references and our full satisfaction to their honesty/character must be ascertained. Individuals who are producers and have the ability to persue and encash the opportunities in the market place are needed. Good in human relationships and good managers of men and women. Both types of qualities are required, i.e. professionally sound, and above all, producers and good managers of men and women. We have to give importance to people who can produce and create rather than to those who can manage the existing business. Care to be exercised against organised crimes - We should not be led away on the face of apparently attractive business.

Our projections reveal a planned and systematic growth in volume - Deposits and otherwise. We have to strive to go into profit within a year. We have to take care of all Ratios and Reserves etc. from the start and in this connection all regulations to be clearly understood and where necessary guidance to be sought. We should gradually and steadily go into different types of banking. A list is attached giving different types and phases.

3

INTRODUCTION (Continued)...

Our interest rates, commission rates and entire tarrif has to be in line with other banks. Regulations relating to interest on small business loans etc. have to be fully understood. Management information system has to be effective from the beginning so that up-to-date information is available on a daily/weekly basis.

Large Money Market Centre in N.Y. But, before we generate resources and have full acceptability, we should concentrate on non-funding business e.g. Leasing, Factoring, Insurance, Bills and clearing etc. Another important and lucrative area for introducing the name of FABNY as well as for profitability would be Foreign Exchange, Metal and Commodity trading for customers. We must find good people and concentrate fully on this. We have to have a few excellent Traders/Dealers from the start. We must arrange credit lines from banks for Fed. Funds, spot/Forward, Placements and endeavour to get RATING. A close relationship with brokers will be necessary and at a later stage may issue our own CDs. Interest-free or demand deposits should be our target from the start. Different deposit schemes will have to be developed by us.

An offshore branch in the Bahamas or Cayman is worth considering before the start. IBS would be there but a number of restrictions and, therefore, offshore units are necessary.

It is assumed that a sum of USSSO (Collon will be the thitial capital (paid-up) which will be increased to USSSO (million within six months to sustain and support the Bank's projected growth. Emphasis would be on profitability so that the profit can be capitalized in future years in order to sustain continued growth. order to sustain continued growth.

Initially, the return will not be as high as we desire as our operating/ setting-up expenses will be rather high the benefits of which will accrue over a longer period. As a matter of policy, we will concentrate on generating deposits and avoid building assets which will affect profitability. Right from the start, we should have checks and control on expenses for which proper systems and procedures to be adopted. Technological costs will be enormous and we feel that in the beginning we have time-sharing for a year from another bank and in the meantime develop our own software/program. A lot of thought must be given to AUTOMATION - a must as without it we will not be able to compete effectively.

Realising the highly competitive environment in the U.S. and not having practical knowledge of local working/markets is likely to place severe constraints on generating deposits, good risks and profitable business. Being a start-up operation, it is recommended that we go out and fully concentrate on International Banking - in all directions -- Foreign customer base as well as correspondents business and accounts. However, as a U.S. based bank, we are learning local conditions and our aim will remain to make FARNY a known first-class N.Y. bank We must also exploit the big Foreign FABNY a known first-class N.Y. bank. We must also exploit the big Foreign Exchange and Currency Notes Market -- Saudi Arabia(supply of U.S. notes), dealing and quoting foreign currencies including Arab currencies.

INTRODUCTION (Continued)...

We also have to get a decision as to which bank in N.Y. we make our major correspondent/clearing bank. Manufacturers Hanover Trust is recommended as it specialises for foreign banks and it is a New York based bank.

OBJECTIVES

These should be considered in the light of intense competition and the rapidly changing banking environment. We will have a wide range of banking activities but we have to decide on our priorities.

- 1. Profitability and Acceptability in U.S.,
- 2. Inject the Image of the Bank in U.S. and outside,
- Excellent Service to customers of all size/kind and to correspondent banks,
- 4. Exploit the opportunities available in the U.S. market and complete understanding of local conditions, rules and regulations.
- 5. First-class Human Resources
 (as described under "Introduction")
- 6. Effective management of Bank's Assets,
- 7. Effective management of Dealing/Trading Room activities,
- To introduce new products and services (safe deposit vaults and night-safe, Teller Machines),
- To open new branches and/or acquire branches of other banks, S & L in N.Y. Factoring and Leasing acquisitions by the Bank.

We have to discuss and decide a primary sphere of operations that FABNY would consider and also to set out the secondary sphere of operations. To begin with, our natural strength which could be easily exploited should be our course. As suggested above, International and Foreign Exchange should be concentrated upon.

BASIC ASSUMPTIONS

- The level of commercial, trading, foreign exchange and other banking activities in U.S. is unlimited for all practical purposes.
- No major upheaval or changes in the monetary policies in U.S. will take place -- (Liquidity and Reserve requirements including Euro-Dollars) No major changes in Interest or Ex-2. change rates.
- 3. We have an offshore unit.
- The social, political and economic conditions in the Western and Third World countries will not undergo drastic changes. 4.
- Paid-up Capital of US\$50 million to start up the objection, to be increased to US\$100 million within six months.

 Will receive US\$ million Documentary Credit business from BCC initially for 18 months. 5.
- 6.
- Credits upto 60% to 70% of total deposits OR US\$ 7. loan port folio from own deposits and Due to Banks, etc.
- 8. Management style and Philosophy will be on the pattern of BCC --No interference from the Holding Co. and free hand to the Management.
- Adequate staff available for various departments (the type explained under "Introduction"). 9.

STRATEGIES

1. Our strategies will be different for

- (a) Local/Domestic, and
- (b) International,



in order to achieve the growth and profitability we are projecting for FABNY. These are covered in our write-up on the type of banking/business we adopt and the phases. In any case, detailed strategies have to be finalised after discussing with other executives -- committees and individual heads responsible for different aspects of Domestic as well as International, especially with the Chief Executive Officer -- M/s Naqvi and Shoaib also.

Critical examination of our achievements and failures vis-a-vis our projections/objectives and wherever necessary,
corrective measures to be taken to ensure achievement of our
objectives -- Regular Meetings.

¥_3.

Project the image of FABNY -- being an Hiterstate Bank 30 Domestic as well as International bankings the decoration, appearance and Logo, etc. to be eye-catchings the decoration, to project FABNY as a helpful/appearance New York Bank).

* 4.

Introduce FABNY to the Third World countries (with the background of BCC which already enjoys great acceptability), including Latin American countries so as to get profitable business and interest-free/low rate government deposits. Vigorous effort to be made.

- Provide computerised self-service banking facilities to customers and develop our own computerised system which should be much more efficient than that of other banks. No lines and queues at the counters.
- Emphasis on ensuring good, efficient prompt and courteous service in all directions and activities of the bank. The executives and senior officers to give personal touch to customers.

STRATEGIES (Continued)...

- Manpower development Aspiration Real Management Humility from the start. Stress on Humility. Regular meetings with staff to inject Real Management. Cooperation and Coordination. Interdependence and Inter-relationships to be encouraged.
- Although emphasis on growth but care to be exercised against organised crimes. Prudent banking from the beginning.
- Treasury/Dealing/Trading/Credits/Syndications, etc., to be very well organised from the start and senior, well-experienced and honest people to head these departments. Emphasis on Foreign Exchange, including currency notes.

10.

Introduce new products and services so as to provide greater facilities to customers and to attract new customers on regular basis, e.g., Safe Deposit Vault, Automatic Teller Machines and Inter-state as well as International connections of FABNY.

11. Develop good relations with Regional Banks and endeavour to get their Demand Drafts, Remittances and Letters of Credit business related to overseas countries as well as abtein credit lines from them.

It is understood that source for generating liabilities would be customer deposits -- we put greater emphasis on customer deposits and inter-bank funds. To avoid relating medium or long-term assets, our strategy should be to build a sound deposit base, most effective profitable Foreign Exchange Dealing Room, limited participation in good syndications and to avoid building Assets unless first class and of short-term.

PROFIT AND COMMENTS

1983

Figures for 1983 are not given as we believe that by the time our operations start, the available capital of US\$50 million will square the position. That is, expenses like premises and some salaries, etc., could be offset from the interest earned on capital.

1984	& 1985 - PROFIT & TAX	
STATEMENT OF INCOME	1984	1985
otal Interest Income	17,203,000	
ther Income	730,000	\
otal Interest Expenses	17,933,000.	RD)
let Interest Income & Commissi	0,6,00,333,000.	
	FEDER	
ther Operating Expenses		

Salaries, Al	lowances	3,176,000
Rent] Taxes]		3,436,000
Electricity,	Heating and Cleaning	400,000
Insurance		60,000
Legal Auditors Automation	225,000 125,000 250,000	600,000
	Carried/F	7,672,000

PROFITS AND COMMENTS (Continued)...

198	4 & 198	35 - PROFIT & TAX	
STATEMENT OF INCOME		1984	1985
***************************************		••••	
Balance B/F		7,672,000	
Postage, Telecommunications and Telephones		300,000	
Stationery and printing		150,000	
Publicity & Advertising		100,000	
Entertainment		25,000	
Travelling, Car & Freight		300,000	
Depreciation		875,000	1
Occupancy Tax N.Y. City		50,000	(63:15)
FDIC Insurance Premium		100,000	- 10
discellaneous		160.000	المردد ا
Subscriptions and Periodicals	7	GF 10,000	•
	'	S 302 000	

Gross Net Income/(Loss)

(777,000)

As we have not taken into account the two branches of Bankers Trust which may give us \$1.5M and, therefore, Net Profit will be about \$750,000.- less Corporate taxes of \$ and Net Income will be in 1984.

Comments and Related Figures re Profitability

Creation of Assets is described later and for profitable business a number of items, i.e. products like Acceptances, Letters of Credit, Bills discounting etc., are also described under Assets.

Cont'd.../10.

Comments & Related Figures re Profitability (Continued)...

However, Fees and Other Income generating items to be concentrated on by us are :

- Trust Department for individuals, companies and corporations.
- Foreign Exchange. This will be described in detail as a chapter. And, it is important.
- IBF for banks.
- ATM's, Sweep Accounts, Credit Cards and Computer Services in second Phase.
- Travellers' Cheques.
- Right kind of Tellers to provide personalised service and salesmanship.
- Concentration and keeping Foreign Currency Notes as no other bank except...... Dick Perierana

Our service charges should cover in that the business expenses.

FABNY to go for Tradia Dusiness which is

under the existing regulations.

DEPOSITS AND COMMENTS

For generating sources we have to concentrate hard as our basic policy should remain to rely on our own funds (customer demand and time deposits) rather than to borrow. We should build a strong base from domestic as well as overseas customers or from correspondents' deposits. No cheap money is available and the U.S. people would demand higher rates. We should give priority to our existing overseas relations and cash them. We can also generate local demand denosits (checking processes) deposits/checking accounts as other banks hesitate to go to retail accounts. This will give us a good local base, provided we can keep our expenses to a minimum and give superior service.

1.1

DEPOSITS AND COMMENTS (Continued)...



We should carefully select a few communities -- like Lebanese, iranians.

Chinese, etc. and fully concentrate by emphasising our services and giving these customers a feeling of "their own bank". Difficult, but we have to do it -- A Challenge!

Personalised, prompt and efficient service to high Net-worth customers will also attract deposits. We should avoid mass advertising and publicity as it is expensive and, for a new bank with limited branches, would not serve the purpose, therefore, inefficient. Instead we will use direct mail advertising by picking names from lists available from different sources, e.g. Amexco card holders and zip codes and Midwest Airlines survey and New York Air. Also mailing lists and advertising in Arab countries. We are preparing a booklet on the lines of BCC which could be mailed to the overseas branches of BCC and they could pass it on to different people in their areas or we could obtain addresses and mail ourselves.

Existing regulations relating to deposits and reserves, etc., must be known and kept in mind while deciding interest rates. Our Dealing Room would be a good source of getting funds from banks abroad by providing efficient service for Foreign Exchange as well as for deposits.

CDs, Commercial Paper, Repos, Checking Accounts, All Savers Certificates, Nows, Super Nows, Term Deposits, Individual Retirement Accounts and communities and clearing and We have to decide which one to go for.

PHASE I, Our sources could be :

Individuals

- Local U.S. citizens including high Net-worth individuals
- Non-U.S. individuals including high Net-worth from Arab, Latin American, African and Asian countries

Local Professionals

- Doctors
- Accountants
- Lawyers

Local & Foreign Corporations

- U.S. Multinationals (very difficult as they are generally borrowers but we should develop contacts).
- Other U.S. Companies (do - do - do).
- Non- U.S. Multinationals operating in U.S. or their country of origin, like Latin Americans, Europeans, Japanese, Asians.
- Airline collection accounts (emphasis on BCC's worldwide coverage through its branches).
- Medium and small-sized companies and business houses.

DEPOSITS AND COMMENTS (Continued)...

Non-Bank Financial Institutions

Again, this will be difficult but we can exploit the size of the Holding Company and of Interstate banking. In any case, list with contact names should be prepared and we keep in touch with them. One never knows, in certain cases we may just fit in.

- Pension Funds
- Trust Funds
- Insurance Companies
 - Bid for State Funds and Municipalities

Savings and Loan Associations

Brokerage firms and Money Market and Investment banks

We must, from the start, introduce the tank, Holding to and interstate banking to the following and develop good contacts.

- World Bank FEDE

- U.N. and different Mission
- Inter-American Development Bank
- Asian Development Bank
- African Development Bank
- Carribbean Development Bank
- OPEC
- SAMA
- Arab Development Bank

B C C and its Overseas Clients

- Credit Line and Term Loan
- Its customers

13

Correspondent Banks and Central Banks

Here we have to be careful and selective otherwise Third World banks would be asking for credit lines from us. We have to prepare a complete list of banks, country-wise with their balance sheets, etc., and get Country Limits approved well in advance.

We should endeavour to get their current accounts for settlement and have agency arrangements and surplus funds for investment by these banks.

- e.g. Arab banks
 - Latin American banks
 - Asian banks
 - African banks
 - U.S. Regional banks
 - N.Y. branches and subsidiaries of foreign banks (clearing may create difficulty for us)

We should also develop good contacts with the Federal Reserve Bank of New York.

This would be more feasible in the second phase when we are known and have acceptability so that we could have discounting facilities and any other facility available to smaller banks from the Reserve Bank of FEDERAL RESLEVE BOARD



Nember Banks of First American

These should not only be sources of funds but their entire international business through us, thus large current account funds of theirs with us in N.Y. We could become their Central Treasury and would also bid for their funds on the basis of prevailing Interbank rates.

Other Banks

We must develop very good relationships with all banks whether we receive credit lines/funds or not - for our image and acceptability in general.

We could endeavour for credit lines not only for Money Market operations but also SPOT AND FORWARD EXCHANGE LINES AND FED FUNDS (generally big banks buy Fed-Funds rather than sell and, therefore, will be difficult to get Fed-Funds lines from them. Again, banks in U.S. hesitate to give F/Funds lines to Middle Eastern banks -- connections with Middle East. However, Federal/ Regional banks sell Fed-Funds and, therefore, we have to develop suitable contacts with them for such funds.

Cont'd.../14.

11

Other Banks (Continued)...

we could concentrate on :

- Term Credit/Fund Lines
- Revolving Lines
- Through IBF for Euro-Dollars
- Euro-Dollars from banks having large Euro-Dollar funds (but care for utilisation due to Reserve requirements.

This may become an expensive affair. -

CREATING ASSETS AND OTHER BUSINESS

Uses and Products

As stated under "Introduction"/"Strategy", we helteve that great emphasis should be given to generate liabilities/funds from banks/customer deposits rather than creating medium or long-term assets which is very much applicable to N.Y. market and one has to be very careful and extra cautious while creating assets. For a new and small bank like FABNY it will not be advisable to go for creating assets. Danger of blocking our funds and losing able to go for creating assets. Danger of blocking our funds and losing in bad debts. Therefore, extra care and caution is required.

Creating assets related to companies routing substantial profitable business should be considered, especially related to import or export financing. It is suggested that we go for Middle Market businesses and assets. Here, we will be confronted with competition with large banks like Citi or Chase as these banks are now very much concentrating on this business. They have created special cells called "Commercial Groups". We should hire people from other banks so that from the beginning they can bring some business with them. We should have people who have experience of N.Y. market. People matter and even if we have to pay extra money we must have experienced and honest people.

:5

CREATING ASSETS AND OTHER BUSINESS (Continued)...

We could go into working capital lending to accountants' companies and also get recommendations from known friendly bankers. We should have customers who do not bank with more than three banks. Lending officers and other executives individual titles and authorities should be fairly substantial as these things matter a lot to customers and it is often said that N.Y. banks' officers and executives neither have titles nor powers.

USES

- To known correspondent banks and not to all (country and Due from Banks Limits necessary)
 AND branches of foreign banks
- U.S. Regional Banks
- African, Asian, Latin American and Arab Banks (Due from Banks Limits)
- Member Banks of First American
- FEDERAL TESTINATE ZOARD Central Banks (depending on country Eintits Co COPIED

Corporations

- U.S. Multinationals (Imports & Exports only, subject to countries). However, spread will be very small and may be below prime but contact is a must.
- Trading companies of U.S. origin or Foreign (to see their track record).
- U.S. or known International Construction companies' guarantees and lending ona project by project basis.

Individuals or Small and Medium businesses

We should avoid these and consider in the second phase as such lendings can be troublesome as well as entail higher cost/expenses. However, known high net-worth individuals would be considered. Working capital for a short period. We also go into non-funded business like clearing, collections and fee on a limited basis. We could go into syndications provided it is for a short period and country limits permit and large local banks are satisfied.

15

Individuals or Small and Medium Businesses (Continued)...

We must concentrate on the following :

PRODUCTS

- Letters of Credit from corporations and medium-size companies
- Guarantees/Bid Bonds, from banks and corporations (our BCC connections)
- Acceptances Banks
- Bills Discounting from corporations and medium-size companies
- Pre-Export financing against firm contracts
- Financing of imports on pledge/secured basis provided we are satisfied with the items
- Buy good portfolios of short-term loans from other banks (care as banks may pass on bad only)

In our second phase and once we have a sound base Asourd , we could go for financing of :



- Factoring and Leasing (map the buy small companies)
- Export Trading Corporations
- Syndications on a large scale



U.S. Government financing, AID, Ex-Imp banks, OPEC and Central Banks of selected Third World countries

MANPOWER AND ADMINISTRATION

An organisational chart giving stages of growth in our manpower is attached. It has already been emphasised that we must have high quality people from N.Y. having had spent a number of years in their respective departments.

Cont'd.../17.

FOREIGN EXCHANGE/TREASURY/INVESTMENT (Stocks & Bonds)

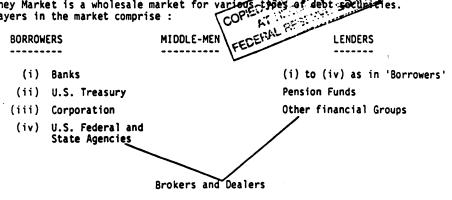
Current trends in U.S. banking indicate that the whole financial institutions industry in the United States is undergoing major changes and they will become more pronounced in the future.

As such, banks have had to adapt to these changes, in order to survive in the market place. Survival has also meant a departure from traditional banking spheres and an aggressive entry into the role of 'Money-brokers' where effective asset/liability management has assumed vital importance.

There are various money market instruments currently available in the U.S. which can be put to many complex uses in achieving asset/liability management objectives.

The U.S. money Market (And Need for Skilled Personnel)

The U.S. Money Market is a composition of many markets for different instruments. However, due to the close inter-relationship of the different instruments, reference is made to one market only of The disc. Money Market is a wholesale market for various types of debt solutions. Players in the market comprise:



It must be stressed that as this is a wholesale market, the amounts of trades involved, even on an individual basis are large. It is imperative, therefore, that the persons participating in trade are highly skilled and of high technical calibre.

: 3

FOREIGN EXCHANGE/TREASURY/INVESTMENT (Continued) ...

U.S. Money Market Instruments

3.

- 1. Federal Funds ('Fed Funds')
 - (a) Overnight Fed Funds
 - (b) Fed Funds - Term Market
 - Fed Funds Futures Market (c)
- 2. U.S. Treasury Instruments
 - (a) U.S. Treasury Bills
 - (b) **U.S. Treasury Notes**
 - (c) U.S. Treasury Bonds
 - (d) Dealer and Brokers in U.S. Treasury Instruments
 - (e) Fed Agency Securities
 - The Financial Futures Market (Or Interest Rate Futures)

(a)



- 90-Day Treasury Bill Contract for \$1,000,000 face-value (ii)
- (iii) 12-year GNMA Contract for \$100,000 face-value
- **CD** Futures (iv)
- (b) Financial Futures Exchanges

The following exchanges trade Financial Futures :

- The Chicago Board of Trade : Treasury Bond and not GNMA contracts
- International Monetary Market: Treasury Bill Contract (of the Chicago Mercantile Exchange)
- The Chicago Board of Trade, Chicago Mercantile Exchange and not the New York Futures Exchange

FOREIGN EXCHANGE/TREASURY/INVESTMENT (Continued)...

- The Financial Futures Market 3. (Or Interest Rate Futures)
 - (c) Financial Futures in Asset/Liability Management
 - What the current net interest rate spread is
 - The determination of what the interest rate spread would be and, not
 - The degree of matching or mis-matching, desired in the bank's balance sheet.
 - Hedging in Financial Futures (ä)
 - Offsetting any interest rate risks in fixed-rate commitments
 - To expand the rate sensitivity of fixed
 - To hedge against a decline in the vilue of a fixed rate, liquid portfallo of the control of the Commercial Paper Futures Markey Wife Paper
 - (e)
- Certificates of Deposit Domestic and EuroDollar 4.
 - Lowest Rates paid by top 25 U.S. banks on CDs issued in U.S.
 - Next Lowest Rates paid by top U.S. banks in London
 - Third Tier rates paid by top foreign banks in New York
 - Highest Yield CDs paid by good foreign banks in London
- 5. Euro Time Deposit Market
- Bankers' Acceptances ('BA') .6.
 - 7. Commercial Paper
- Municipal Notes ('Munis') 8.
- The Repo and Reverse Market 9.

Periods E			
	Periods Ending December 1984/1985	(Full Years)	
£15	861	\$ \$0	1985
h & Cash Items in Process of Collection from Banks	- 100,000,000.	.000	
from Federal Reserve	- 100,000	- 000	
Investment Securities			
U.S. Treasury/Govt. Agencies 20 Others	20,500,000 6,500,000	٠	
lotal Securities	27,000,000	- 000	
Fed Funds Sold Due from Customers on Acceptances	17,300,000	.000	
Oans			
Commercial 118 Real Estate 118 Retail 119	118,000,000 15,500,000 16,250,000		
Total Loans	149,750,000	- 000	
Bank Premises & Equipment Other Assets	7,500,000	.000	
Total Assets	476,750,000.	.000	

OH ACK 1000,000,000 50,000,000.-25,000,000.-750,000.-476,750,000.-225,000,000.-1984 (Continued)... NCE SHEET - FIRST AMERICAN BANK OF NEW YORK 25,600,000.-25,400,000.--.000,000,66 ers' Acceptances outstanding ptances and Commitments ury Notes Payable **Funds Purchased** ngs Deposits nd Deposits **Deposits** tax Profit **Deposits** to Banks issued LITIES antees . נש

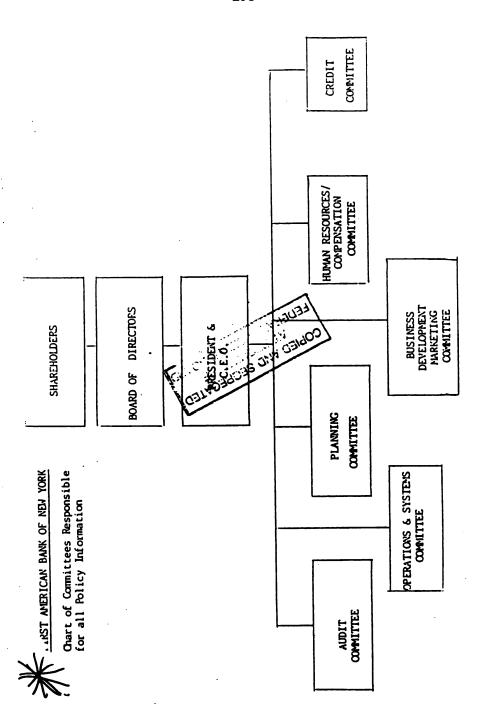
The debt/equity ratio works out to 79% whereas in general this ratio tends to be over 90% and of the very large u.S. banks is around 94% to 95%. This shows that the bank is following a very conservative policy Being a start-up operation, the balance sheet structure cannot conform to typical industry patterns. during its formative period.

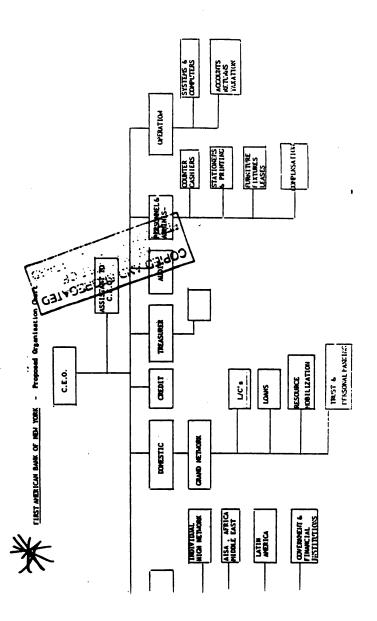
MARKS The loans to customer deposits ratio is almost 100%. Although this is much higher than what it normally ought to be, yet given the over-capitalization (see '2' above), that is, the low debt/equity ratio, the

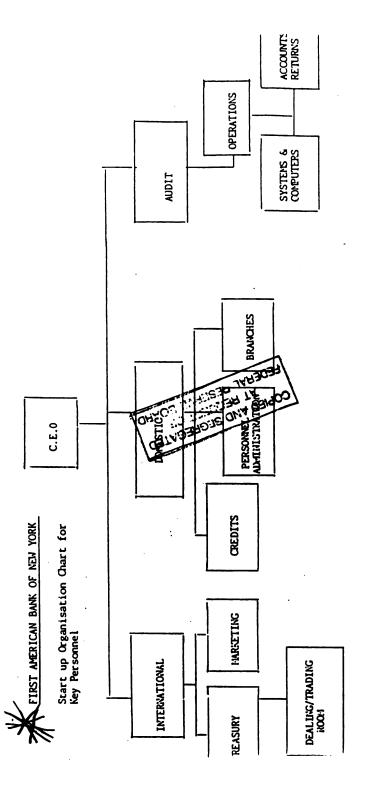
exposure is reduced.

1985

21









January 12, 1984

Mr. S. M. Shafi
Regional General Manager
Latin America
Bank of Credit & Commerce
International (Overseas) Ltd.
1200 Brickell Avenue
Miami, Florida 33131

Dear Mr. Shafi:

As soon as we finalize the date of opening of our bank, I shall be writing to you in detail. My purpose in writing this letter is to provide some background information on our group. FABNY is a New York State bank and a subsidiary of First American Bankshares Inc., Washington, D.C., a multi-state bank holding company with other full service commercial banking subsidiaries in Washington, D.C., Maryland, Virginia and Tennessee. I am enclosing a copy of the group's interim report as at 30 June 1983, showing total capital funds of U.S. \$198.5 million and total assets in excess of U.S. \$2.87 billion. The shareholders have recently injected further funds into FABNY, increasing its capital to \$100.2 million as at 31 December 1983; the group's capital funds as of the same date will exceed \$300 million with total assets of approximately \$3.5 billion. As soon as our detailed individual and group statements for year-end 1983 are available, we will mail them to you.

I seek your assistance in ensuring that we have excellent opening in March/ April 1984 and would very much appreciate your introducing to us a few clients of high net worth. We are soliciting your help during an initial period prior to the development of our own marketing department and until such time as FABNY's name is established domestically and internationally. You have my assurance that I will provide personal attention to, and monitor such relationships myself. With our intimate knowledge and experience of money markets, supported by an efficient communications network, we feel we will have an edge in responding to your clients' needs efficiently and expeditiously.

Please let me know if you require any further information or account opening forms. I look forward to your assistance in this respect.

With all good wishes for 1984 and personals regards.

Years sincerely,

Alies Africa

350 Park Avenue • New York, N.Y. 10022 • (212) 759-9898

MA5

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

C EXHIBIT:

BANK OF CREDIT AND COMMERCE INTERNATIONAL OVERSEASCHMITED (20) BRICKELL AVENUE MIAMI FLORICA 33137 (2. A.

23rd March, 1984

Mr. A. Afridi First American Bank 350 Park Avenue New York, N.Y. 10022

Dear A: 1-40 2 131 ...

Subject: Castle Investment Group Fort Lauderdale, Florida

This has reference to our teleconversation of this morning.

The Modus Operandi for handling deposits for the above group would be as follows:

- (1) First American Bank would have to print contract forms in triplicate along the lines suggested by the above group, photocopies of which are enclosed.
- (2) These forms would have to be protectographed, signed and kept in safe custody at our Boca Raton Branch in Florida.
- (3) Each depositor would complete and sign the requisite forms printed by your office at the time their cheque is handed over to the BCC representative.
- (4) The BCC Representative would hand over to the depositor the original copy of the printed specified form (Item I); the second copy of which would be forwarded in batch to your office the following day by our Boca Raton office; the third copy would be retained by our Boca Raton office as their office copy.
- (5) On receipt of your copies of the printed specified form, First American Bank should issue in due course (within ten (10) working days) a comprehensive list of the depositors along the lines of the enclosed draft—(Item II). This list should be sent to our Boca Raton Office for handing over to the representatives of the Castle Investment Group. This list would also be utilised for the issuance of the usual income tax certifications.

Cont'd. .../2

CABLES: BANCRECOM

PHONE 305 374-0777

TELEX: 264080

- (6) All deposits would be for a period of lb2 days. On maturity the BCC representative would have to hand over to the depositors two individual cheques representing principal amounts and accrued interest. The depositor would then have the choice of either reinvesting, adding to or not renewing.
- (7) BCC Boca Raton will contact your dealer three working days prior to the date of maturity to obtain a quote on amounts for the next 182 days.
- (8) To facilitate smooth operation of these transactions First American Bank, New York should open an account with BCC Boca Raton.
 - (9) The rates of interest and Investment of funds will be as per our discussions on telephone.
 - (10) The first maturity of the Group (US\$5million) falls due on April 5, 1984; so your urgent attention in finalizing these arrangements and the necessary printing is kindly requested.

If you have any queries or counter suggestions please do not hesitate to contact me or Mr. Basu. I hope the above will be agreeable to you and will prove to be of mutual benefit to our two institutions.

Kind regards,

R. Sakhia



DATE 5/9/86

MEMORANDUM

William M. Duncan

Aijaz Afridi





BCC Group's Annual Conference - Luxembourg



This memo seeks to summarize tangible results of my recent visit to Luxembourg where I attended the subject conference together with Bob Altman as guests:

*BCCI-Amsterdam's account shall be established at FABNY next week and they shall be routing all of their U.S. business through us,

.BCCI-Paris shall most probably be opening their account, ...

×

*BCC-Misr (affiliate of BCCI) shall be closing their account at Security Pacific. They have been maintaining an active account at FABNY since late 1984. They have now agreed to keep \$400,000 in average compensating balances. As FABNY requires more understanding of their operations and special needs, our officers may have to visit Egypt for discussion purposes, after which it is hoped that their free balances will be further increased. increased,

*National Bank of Oman (29% BCCI ownership) shall start placing funds up to \$150 million with FABNY which we shall place with BCC, keeping a cushion of 1/16 to 1/8. I have not agreed to this arrangement as we have to carefully examine the ramifications, 濼

Banque de Commerce et de Placements S.A., Geneva (20% BCCI) have increased their business activity by closing their account at First Chicago,

* BCCI will open a branch in Australia on June 1 and it has been agreed that their account will also be opened with us.

The overall relationship with the Group was also discussed and Bob Altman made a push to obtain more of their business.

Robert A. Altman - For your information

Gredil and Gommerce American Holdings, N. V. Pistermaai 6, Willimslad Guraçao, Netherlands Antills

June 9, 1989

CONFIDENTIAL

Robert A. Altman 815 Connecticut Avenue, N.W. Washington, D.C. 20006

Dear Mr. Altman:

Attached for your examination is a memorandum explaining the purpose for a two-stage offering of new right shares. approved by the Managing Directors of Credit and Commerce American Holdings, M.V. (the "Company") for 1989. The first offering will involve the issuance of 18,025 additional new shares and will be available to each shareholder on a proportionate basis. The offer will close on June 30, 1989, and any shares not purchased will either be cancelled or sold to other interested investors at the discretion of the Board. The second offering is to take place during the second half of 1989.

The first right shares offering furnishes the opportunity for you personally to purchase an additional 75 shares of the Company at U.S. \$2,774 per share for a total price of U.S. \$208,050. The purchase price reflects the book value per share for the Company's stock as of December 31, 1988.

We enclose for your signature a letter of acceptance confirming that you wish to purchase the new shares available to you. Should you wish not to acquire these shares, kindly execute the letter of waiver enclosed and return it to us.

We look forward to your reply prior to the close of the offering on June 30, 1989.

We are confident you will concur that this further investment in the Company represents a unique opportunity to broaden your participation as an investor in this unique, dynamic financial institution.

THE NANAGING DIRECTORS

Robert A. Altman, Secretary

CABLE CLINEY TELEX 248556 CLEY

TELEPHONE (202) 626-420

octicut Av Washington, D. C. 20006

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

ROBERT & ALTMAN

May 8, 1986

DIRECT LINE (202) 888-48:

Mr. Swaleh Nagvi Bank of Credit and Commerce International 100 Leadenhall Street London, England EC3A 3AD

Dear Mr. Navqi:

I am enclosing the memoranda concerning the acquisition of the National Bank of Georgia that we discussed in Luxembourg. Several points should be noted:

1. The memoranda concider of the concerning the memoranda concider of the concerning the concerning the memoranda concider of the concerning the memoranda concerning the acquisition of the National Bank of Georgia that we discuss the acquisition of the National Bank of Georgia that we discuss the acquisition of the National Bank of Georgia that we discuss the acquisition of the National Bank of Georgia that we discuss the acquisition of the National Bank of Georgia that we discuss the acquisition of the National Bank of Georgia that we discuss the concerning the concerni

- 1. The memoranda consider a mostble payment by the investors of 50-60 million dollars of their CCAH stock in addition to cash. It is hoped that in negotiations a payment involving CCAH stock would not be necessary. Any such payment that is required would have to come from the stock currently held by the investors since CCAH itself is not now acquiring the Company. When the investors subsequently contribute the NBG stock to CCAH, and receive additional shares of the Company, it will depending on valuations effectively dilute the initial ownership position of Dr. Pharaon in CCAH.
- 2. In discussions with Dr. Pharaon, it should be noted that significant tax advantages would appear to accrue to him by reason of the sale to the investors rather than a sale to
- 3. In an analysis prepared by Mr. Scoffone, Senior Vice President and Treasurer of Pirst American Bankshares, NBG financial statements as of March 31, 1986 were used which disclose stockholders' equity of 93.9 million. This figure is, of course, higher than the year-end numbers on which we had been relying, and which Dr. Pharaon had mentioned.
- In making our analysis, certain assumptions were . These have generally been explained in footnotes necessary. in the documents.

Mr. Swaleh Naqvi May 8, 1986 Page 2

- The transaction we structured contemplates \$60 million in debt. It would be appropriate if BCCI itself wished to consider being a lender.
- 6. Our review makes clear that the creation of a separate company to acquire NBG until CCAH is able to own it would raise significant financial problems. Were our investor(s) to purchase the bank individually or as a group, we could avoid these problems, including the creation of significant goodwill on the books of the bank.

 7. It is hoped that negotiation would produce a deal for \$160 \$175 million in cash, with no stock. Mr. Scoffone provides information concerning various other bank sales, but it is clear that we are nearing the going other bank sales, but it is clear that we are nearing the going at the this purchase is too expensive. And we have never seen a written bid from NCNB.

 We understand that NCNA has leaked news of their NBG acquisition, and several brokes are aware of it. It becomes increasingly important to conclude this matter one way or the other as soon as possible.

If you have any questions, please call me. I trust you will forward this information to Mr. Abedi.

Robert A. Altman

Enclosures

Clifford & Vlárnki Sttorness and Counsillors at Law 815 Connecticul Arenue Washington, D. B. 20006

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

June 17, 2986



Mr. Agha Hasan Abedi President, Bank of Credit and Commerce International, S.A. 100 Leadenhall Street London, England EC3A 3AD

Dear Mr. Abedi:



Enclosed herewith you will find a memorandum re an option to acquire the National Bank of Georgia. This will give you some idea of difficulties and complexities that confirm we have continued our study of the issue theory and are attempting to refine the police presented in the memorandum.

The work on the documents is proceeding and we will keep you informed. We are tonscious of the time factor involved and will be a come to London as soon as we feel prepared.

Cordially yours,

Clark H. Cliffe

Enclosures

MEMORANDUM

Re: Option to Acquire National Bank of Georgia

ISSUE

*

We understand that Credit and Commerce American Holdings, N.V. ("CCAH") is seeking to acquire, either directly or through its indirect wholly-owned subsidiary, First American Bankshares, Inc. ("Bankshares"), 100% of the voting securities of the National Bank of Georgia ("NBG") from Mr. Gaith Pharaon. To that end, control Pharaon have reached an agreement in principle for PharagaCi (unless otherwise required profile congest to CCAH shall be deemed to referent in the alternative, to-Bankshares) the voting shares of NBG for an aggregate purchase price of \$205 million. The agreement in principle contemplates that CCAH will pay Pheraon \$75 million for an option to acquire the shares of NBG. The option could only be legally exercised by CCAH if one of two events occurred -- (1) a determination by the Federal Reserve Board that the ownership of NBG by Bankshares is grandfathered by Section 3(d) of the Bank Holding Company Act of 1956 ("BHCA"), and

thus, that its reacquisition is permissible, or (2) a modification of Georgia law to specifically permit the acquisition of NBG by CCAH.

We further understand that the Bank of Credit and Commerce International S.A. ("BCCI") will loan Pharaon an additional \$130 million and as security Pharaon will place his NBG stock into an escrow account with BCCI. The agreement in principle further contemplates that when CCAH is legally permitted to acquire the shares of NBG, CCAH will repay the loan from BCCI on Pharaon's behalf, at which time the NBG shares in escrow will be transferred to CCAH.

offer the following thoughts in strate in the proposed transactions of the Federal Reserve Board adopted thereunder.

DISCUSSION

Summary

Any attempt to get full value for the option either by having certainty that it can be exercised or by an assurance that its value can be fully realized by transfer to a third party will be severely constrained by the Federal Reserve Board's Regulations and interpretative rulings designed to limit interstate stakeouts by bank holding

companies. In addition, the fact that the agreement will be entered into by the individual shareholder rather than the company will inhibit to some extent the ability to design practical solutions around these problems.

In summary, the Board regulations are designed to prevent the out-of-state institution who is the beneficiary of the so-called "stakeout" from obtaining actual control over the target or its shares. The method of accomplishing this is generally to require that the seller be able to terminate the agreement at a not unreasonable cost and to restrain the buyer's right to transfer its powerest to third parties.

that aid in this regard but to not ruley achieve the desired result. In addition, the processed structure may focus unwelcome attention on the relationship between CCAH and BCCI and raise questions as to whether BCCI has acquired control of NBG. The foregoing problems would, of course, be significantly reduced were certain of the shareholders of CCAH to purchase a transferable option themselves rather than use CCAH as the vehicle,

Statutory/Regulatory Concerns

Section 3(a) of the BHCA provides that it is unlawful, except with the prior approval of the Board,





BANK OF CREDIT AND COMMERCE INTERNATIONAL 100 LEADENHALL STREET LONDON ECJA JAD

PRIVILEGED & CONFIDENTIAL

January 31, 1990

Mr. Robert Altman, Esq., Clifford & Warnke, 815 Connecticut Avenue, N.W. WASHINGTON DC 20006. U.S.A.

Dear Mr. Altman,

I am writing in response to your inquiry concerning whether there were any loans from Bank of Credit and Commerce International, S.A. to any of the shareholders of Credit and Commerce American Holdings, N.V. in connection with the acquisition of Financial General Bankshares in March 1982. I have reviewed a copy of the letter dated December 13, 1989 addressed to you from Mr. William A. Ryback of the Federal Reserve that you provided me, as well as the original and current list of First American shareholders which you also made available.



As I explained, I cannot provide you with confidential information about our customers' financial arrangements with BCCI without their express prior authorization.



On a preliminary basis, I am able to confirm the accuracy of the representations made to the Federal Reserve in the Board application that the acquisition of Financial General Bankshares was not financed in any respect by BCCI. Insofar as the Federal Reserve has been informed that "some of the investors may have borrowed from BCCI," we can confirm that none of the shareholders involved in the acquisition had any personal loans from BCCI during the years 1981 (when the application was filed) or 1982 (when the acquisition was completed). The Board's misimpression may be due to the existence of some unrelated loans from BCCI for working capital requirements of various other businesses in which certain shareholders had interests. Of course no stock of CCAH or Financial General was placed as collateral for these loans. I trust this is helpful as an interim report. When I am able to provide full details, it should be completely dispositive.

You should be aware that in the years following the acquisition, some of the persons who are on the list of shareholders of Credit and Commerce American Holdings, N.V. have from time to time borrowed from BCCI for various purposes. Other individuals -- including some who appear as the larger investors in First American -- have not borrowed from BCCI, and do not have any CCAH stock pledged to secure outstanding loans.

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I further understand that a copy of this matter may be provided by you to Mr. Ryback on a confidential basis.

Sincerely,

SWALEH NAOVI

CABLE CLINEY TELER 848556 CLEY

TELEPHO-

Cliffird & Warnko Allornoys and Counsollors at Law 815 Connecticut Avunus Washington, D.C. 20006

November 6, 1990

James S. Keller, Esq.
Managing Senior Attorney
Legal Division
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Keller:

In accordance with our commitment to keep you advised as to relevant discussions with Jim McGee of The Washington Post concerning First American, I enclose a memorandum to the file summarizing a recent meeting with McGee on October 29, 1990. I trust this is helpful to the Board in monitoring developments that could affect First American.

If you have any questions, please give me a call. We still have no idea whether the \underline{Post} will run a story, or, if so, its timing and focus.

Sincerely,

Robert A. Altman

Enclosure

bcc: Julie O'Sullivan

MEMORANDUM TO THE FILE

October 29, 1990

Re: Meeting with Jim McGee

Mr. Clifford and I met today with Jim McGee and Joel Glenn Brenner of The Washington Post. The meeting lasted approximately 1/2 hour.

McGee opened the meeting by saying that he wanted to advise us that he had talked again with Mr. Mannion, but did not elaborate. He also reported that the Federal Reserve had denied his appeal under the Freedom of Information Act regarding additional Bank of Escambia documents.

McGee turned to the subject of the meeting and asked about a \$20,000,000 debenture that had been purchased by an affiliate of BCCI from CCAH in June 1988. (This was in FOIA documents he received from the Board.) We advised him that the Treasury Department of First American indicated that certain of First American lenders desired certain capital ratios be maintained at the Company under various loan commitments we had, and therefore we sought to raise a modest amount of additional funding at CCAH through borrowings. We had inquired whether BCCI was interested in purchasing a debenture, and were advised that they were willing to consider it. BCCI was satisfactory to First American because a mutually acceptable rate of interest could be negotiated and, further, BCCI was familiar with First American and its corporate structure. Therefore, the credit could be evaluated in an expeditious manner. It was noted that this was one of many financings that First American obtained from various unrelated financial institutions. The proceeds were generally used for working capital of the Company; the transaction was not based upon Federal Reserve requirements.

McGee switched the subject to questions about any borrowings by First American shareholders from BCCI. We again informed McGee that we were not advised by our shareholders of their personal financial dealings - including loans from BCCI or any other bank - and could not respond to this inquiry. McGee made reference again to some report of over \$700,000,000 in borrowings (perhaps secured by CCAH stock), but we could not provide any response. We said that we might be in a better position to comment if we saw the report he referenced. We asked if he knew the purpose of the alleged loans,

but he did not respond. (Note: there has only been a total of \$400 million raised in CCAH Rights Offerings since the acquisition. As we advised the Board last Spring, we have heard wide-ranging reports of up to \$1 billion in borrowings, but we have never seen any documentation of these loans and have no hard information about such claims.)

McGee them stated that others had alleged that when we needed additional capital, BCCI had the right either to approve it or deny it. Clifford responded that BCCI had no such right, and we did not deal with BCCI that way. As we previously explained, our past dealings with BCCI were a matter of communications efficiency, as well as BCCI's express role as investment advisor. When McGee suggested that reportedly the shareholders relied heavily on BCCI's views, Mr. Clifford speculated there may have been greater reliance on BCCI's investment advice at the beginning; after the acquisition, however, we believe the shareholders relied on the views of First American's management. In this regard, it was noted that no recommendation First American made to the shareholders was ever rejected or disregarded.

Again McGee said that he has been told that BCCI could either give its consent or withhold it regarding capital or any management matters, and asked whether this position gave BCCI a "controlling influence" over First American. Clifford again stated that BCCI never gave its consent or withheld it concerning the management of First American. McGee's source is totally wrong.

McGee made reference to certain language (in the BCCI footnote) in the Federal Reserve Application stating that BCCI would not be lending money in connection with the acquisition. McGee was advised that this language related to the financing of the tender offer for First American in 1982 - not other lending. It was noted that the Board knew that the First American investors had long-standing banking relationships with BCCI (and other banks) which would continue regardless of any investment in First American.

McGee asked whether we would be troubled by information that BCCI had loaned money to our shareholders if they had placed CCAH stock as collateral. We responded that this fact alone did not raise legal questions. It was again noted that the CCAH shareholders are passive and are not themselves involved in the management of the Company. McGee asked whether BCCI was a member of the syndicate of banks organised by BAII that financed the acquisition of First American in 1982. We advised McGee that BCCI did not participate in that lending syndicate. (McGee said that the Abu Dhabi Investment Authority was a shareholder of BAII.)

McGee again made reference to allegations by unknown sources that BCCI had exercised a "controlling influence" over First American in approving or rejecting management proposals that were submitted for consideration. Clifford responded strongly by stating the only persons who knew the facts here were Abedi and Naqvi at BCCI, the shareholders, and Clifford and Altman; and that none of these persons could possibly be his sources for such allegations because the charges were factually untrue. McGee was simply repeating baseless speculation. BCCI at no time ever approved or rejected First American's management initiatives and never had any such power. Clifford pointedly observed that in earlier meetings, McGee had been seeking factual information about First American; we were willing to supply such information so that McGee understood the Company. McGee's statements now questioned Clifford's honesty, veracity, and integrity. McGee was cautioned to be extremely careful with such completely untrue allegations. At that point Mr. Clifford stood and indicated the meeting was concluded.

Privileged & Confidential

May 8, 1990

MEMORANDUM TO THE FILE

RE: Meeting with Federal Reserve Staff

A meeting was held at the Federal Reserve beginning at 6:00 PM with William A. Ryback (Deputy Associate Director, International Supervision and Applications, Banking Supervision and Regulation Division), Don E. Kline (Associate Director, Bank Holding Companies, Banking Supervision and Regulation Division), James Keller (Legal Division), and a Mr. Barnes to discuss with the staff any concerns that may have arisen following the publication of articles in Regardie's and the Wall Street Journal. In this regard, we also wished to discuss Mr. Ryback's earlier inquiry concerning any BCCI loans to First American shareholders in connection with the acquisition of Financial General by the investors, or which are otherwise of interest.

Mr. Tuttle stated that the purpose of the meeting was to answer any questions the staff might have arising from the articles, to address any issues about BCCI's relationship with First American, and to report to them current information available concerning any BCCI funding of the 1982 acquisition of Financial General. Mr. Altman reviewed a letter from BCCI President, Mr. Swaleh Naqvi, a copy of which had previously

been sent to Mr. Ryback, advising us that BCCI had not financed the acquisition in any respect. See Attachment A. Mr. Altman further reported that follow-up letters had been sent to each of the First American shareholders requesting confirmation that the original purchases were made from personal funds and seeking authorization to review with BCCI loans made subsequently to the investors which may have been secured by a pledge of CCAH shares. See Attachment B.

Mr. Ryback indicated he was not really interested in subsequent loans from BCCI, but asked instead that we seek Mr. Naqvi's permission for Mr. Ryback to share the Naqvi letter with other supervisors. Specifically, he would like to provide a copy to the regulatory authorities overseas which apparently had first raised the matter with him. He did not identify the regulatory body or bodies. The suggestion was that by forwarding to them a copy of Mr. Naqvi's letter, he should be able "to close his file on this matter." Mr. Altman said he would contact Mr. Naqvi and request such permission; we did not anticipate any objection. Mr. Ryback will be traveling for the next 10 days or so and we should secure a response by the time he returns.

Mr. Altman reviewed our reaction to the <u>Regardie's</u> and <u>Wall Street Journal</u> pieces, and advised them of a subsequent meeting with two reporters from the <u>Washington Post</u>. He reported that documentation developed during the regulatory proceedings approving the applications refuted the basic

allegations in the <u>Regardie's</u> article as to (i) the allegedly unsavory background of the investors and (ii) the suggestion that federal and state regulatory approvals had been obtained on the basis of mere representations by legal counsel. Copies of correspondence from the N.Y. State Banking Department to Congressman Rosenthal and Congressional testimony by former Federal Reserve Board Chairman, Henry Wallich, were furnished to the Board staff. <u>See</u> Attachments C and D. Mr. Keller noted that the Board staff had in fact undertaken a very thorough regulatory review of the transaction, and he agreed with the assessment of the N.Y. Banking Department letter and the Wallich testimony that the review was extraordinarily comprehensive.

Mr. Altman further advised that testimony in the Tampa criminal proceedings by the government's chief witness appeared fully to rebut the <u>Wall Street Journal</u> contention that widespread money laundering was known and condoned at the highest levels of BCCI senior management. In fact, the testimony establishes to the contrary; such activity was contrary to clear BCCI policies and those engaged in such wrongdoing at lower levels had to keep it secret from senior management.

Mr. Altman next turned to the issue of the BCCI/First
American relationship. The acquisition of BCCI by Abu Dhabi
was noted (along with reported sweeping management changes)
which substantially lessened the shareholder overlap between

the companies. Mr. Altman, however, advised of efforts to pursue the issue raised by Mr. Ryback and stated that identical letters had been sent to each CCAH shareholder requesting confirmation that their acquisition of First American had been with personal funds and seeking further information regarding loans, if any, from BCCI that might have been granted by a pledge of CCAH shares. Copies of the letter sent to Kamal Adham were given to the Board staff as a sample. See Attachment B. Mr. Altman reported that we had received a response from Adham (confirming BCCI had not financed the acquisition), that we were expecting more responses, and that we would be happy to provide the Board staff with such letters when they are received.

There was then discussion regarding the regulatory implications of possible BCCI loans to the shareholders (subsequent to the original acquisition) that may be secured by a pledge of CCAH shares. Mr. Altman pointed out that he had no concrete information, but had heard reports of loans by BCCI to certain shareholders in amounts ranging from \$400 million to over \$1 billion. He did not know how accurate these reports were, or what would be the purpose of any such loans. Mr. Altman further indicated that an informal, off-the-record inquiry had been made of Price Waterhouse who advised that there were loans to shareholders that appeared to be properly documented. However, Mr. Altman said he did not get any specific information. We did understand assets were securing

such loans and believed the collateral was CCAH stock in some instances. (We also noted that there were no CCAH bearer shares, and that there was no formal pledge of stock recorded on the books of CCAH.) Finally, Mr. Altman indicated his understanding that the shareholders from Abu Dhabi have never borrowed from BCCI or any other bank. We emphasized again that this information could not be entirely reliable; it was only what we had heard. In this regard, we stated that the shareholders have never advised us of their financial dealings after the acquisition was completed in 1982.

Mr. Kline expressed some interest in BCCI loans, noting that Mr. Naqvi's letter appears worded not to make representations about post-acquisition lending against CCAH shares. agreed that Mr. Naqvi advises such loans have been made, though no security for the loans is detailed. Mr. Tuttle suggested that, even assuming that there were significant borrowings against CCAH stock by First American shareholders, the key regulatory issue is only whether BCCI is in some way exercising a controlling influence over First American. There is no legal or regulatory prohibition against borrowing from BCCI, a view apparently shared by the staff. As to this basic control issue, there can be no question that the current U.S. management of First American runs the operation and establishes and implements the Company's policies and programs. This has been the case from the beginning and has been broadly acknowledged by regulators themselves, including in the recent examination

by the Richmond Fed in connection with its review of the application to retain ownership of the Bank of Escambia, N.A. It has also been observed by state banking officials such as Commissioner Bailey in Virginia. Mr. Altman invited the Federal Reserve to audit the Company or talk to any First American senior officer if there were any questions at all on this point.

Mr. Ryback concurred in this view, and emphasized that his limited concern was only to inquire as to any BCCI financing of the original acquisition in view of information supplied him by foreign supervisory authorities. We agreed again to get permission from Mr. Naqvi to release the BCCI letter.

Following this discussion, Mr. Altman took the opportunity to advise the Board staff as to further developments regarding any possible sale or merger of First American, as well as the possible purchase by Sheikh Zaied of some small amount -- 8 percent or 10 percent -- of CCAH stock. He emphasized that such matters were still uncertain -- that no final decisions had been reached, but that he wanted the Board staff to know that such subjects were under consideration. Mr. Altman noted that the Company had received expressions of merger interest from a number of southeast regional banks which we were considering and there was some indication of interest by the Government of Kuwait (although the degree of such interest had not been made clear). Another possibility

is that Abu Dhabi might seek to acquire the Company. Mr. Ryback lightly noted that the deals involving a southeast bank or Kuwait were preferable, given recent developments with Abu Dhabi's acquiring control of BCCI.

The meeting lasted approximately 45 minutes. It was emphasized by Mr. Altman and Mr. Tuttle that good relations with the Board were of paramount importance and that if the staff had any concerns or questions they should immediately contact us. We would endeavor to secure any information they wished to obtain.

Robert A. Altman Baldwin B. Tuttle J. Griffin Lesher

Attachments

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
APPENDIX



197638 Istim

TELEX No.

TEST No.

AMOUNT

VALUE

DATE 5/4/86 TIME

To: MR. ROBERT ALTMAN

PRESIDENT FIRST AMERICAN CORPORATION WASHINGTON, D.C.

The state of the s

FROM: A.R. SAKIIIA

IT IS MY PLEASURE TO INGORM OUT THAT BCC BOCA RATON HASSARRANGED FOR FIRST AMERICAN NEW YORK A CUSTOMER DEPOSIT OF US\$ 4,200,000 FOR 6 MONTHS AT BLIGHTLY BELOW MARKHT RATES. THIS IS IN ADDITION TO DEPOSIT OF ESMIRLSOMLION ARRANGED EARLIER.

WE HOPE WE WILL HAVE MANY MORE FRUITFUL RELATIONSHIPS.

REGARDS. SAXIIIA

CC: KENAL

FROM BANCRECOM MIAMI

NOT TO BE TRANSMITTED

Authorized Signature

Authorized Signature

CHARGES RECOVERED FROM CLIENT DEBIT.

BCCI Payments for Legal Defense Fund Managed by Clifford and Warnke

STATEMENT DATE	AMOUNTS
11/30/88	\$1,000,000
11/30/88	\$650,910
12/30/88	\$1,000,000
12/30/88	\$1,032,054
1/31/89	\$900,000
2/28/89	\$595,000
3/31/89 3/31/89	\$1,000,000 \$1,183,857
4/28/89	\$1,050,000
4/28/89	\$843,043
5/31/89	\$1,163,531
5/31/89	\$750,000
6/30/89	\$583,979
6/30/89	\$1,035,360
7/31/89	\$500,000
7/31/89	\$334,736
8/31/89	1,338,192
8/31/89	\$1,250,000 \$247,314
9/29/89 10/31/89	\$247,314
10/31/89	\$1,000,000
10/31/89 11/30/89	\$1,214,936 \$6
11/30/89	\$52,074
12/29/89	\$2,171,436
12/29/89	\$2,300,000
12/29/89 1/31/90	\$2,300,000 \$335,448
1/31/90	\$643,269
1/30/90	\$250,000
2/28/90	\$693,772
2/28/90	\$1,250,000
2/28/90	\$1,040,371
2/28/90	\$909,780
3/30/90 3/30/90	\$1,352,022 \$1,000,000
4/30/90	\$527,340
4/30/90	\$700,000
5/31/90	\$1,900,000
5/31/90	\$1,643,938
6/29/90	\$500,000
6/29/90	\$924 <i>,</i> 808
7/31/90	\$4,094
7/31/90	\$1,288,706
7/31/90	\$1,600,000
8/31/90	\$949,254
8/31/90	\$850,000 \$509,879
9/28/90 9/28/90	\$1,250,012
10/31/90	\$1,375,155
10/31/90	\$525,000
11/30/90	\$61,639
11/30/90	\$38,053
1/31/91	\$1,856
4/30/91	\$25,529

*** BCCI's Board of Directors
authorized payments for the
legal fund to be handled by
First American

AMER.

CLARK M. CLIFFORD
PAUL C. WARMER
S. DOWN F. KOVIN
DAVID I. GRANGER
THOMAS RICHARD SPRADLIN
JAMES T. STOVALL, III
ROBERT A. ALTMAN
HARDLO D. OWERT, JR.
ALFRED W. CONTESE, JR.
SERT J. WOSE
JOHN G. CALENDER
J. GRIFFIN LESHER
BRYAN JAY YOLLES
ROBERT F. REZNICK
DON S. DEAMICIS

Clifford & Warnke Attorneys and Counsellows at Law 815 Connecticul Avenue Washington, D.G. 20006

828-4235

May 1, 1981

5 CUN ALA.

TELEPHONE . (802) 628-4200

CLINEY

*ELEX 248556 5.67

SAMUEL S. MCILWAIN

BY HAND

Mr. Robert E. Mannion Deputy General Counsel Legal Division Federal Reserve System Washington, D. C. 20551

Re:

Application of Credit and Commerce American Holdings, N.V. and Credit and Commerce American Investment, B.V.

Dear Mr. Mannion:

In accordance with the commitment made to the staff of the Federal Reserve Board at our meeting on April 23, 1981, I am enclosing answers to each of the written questions submitted by Sidney A. Bailey, Virginia Commissioner of Financial Institutions.

A copy of the enclosed answers has been forwarded directly to Mr. Bailey today under separate cover.

Sincerely,

Robert A. Altman

Enclosure

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EYHRIT

BD 005

MEDICAL SECTION

ANSWERS TO QUESTIONS SUBMITTED BY SIDNEY A. BAILEY, VIRGINIA COMMISSIONER OF FINANCIAL INSTITUTIONS, RELATED TO THE PROPOSED ACQUISITION OF

FINANCIAL GENERAL BANKSHARES, INC.

CREDIT AND COMMERCE AMERICAN HOLDINGS, N.V.

(

CREDIT AND COMMERCE AMERICAN INVESTMENT, B.V.

Question 1:

Page eight of the application (last two lines of text) says "...CCAH and CCAI will own no significant non-cash assets other than and CCAI stock...". Please identify what appears to have been omitted after the word "than".

Answer No.1:

The sentence of the Application which is quoted contains a word which should not have been included. To correct the error, the word "and" should be deleted so that the sentence properly reads "CCAH and CCAI will own no significant non-cash assets other than CCAI stock...".

Ouestion 2:

The relationship (existing or potential) between Financial General Bankshares, Inc. (FGB) and Bank of Credit and Commerce International (BCCI) has not been made clear to the Bureau nor has the existing or anticipated policy of the Investors with respect to such a relationship in the future. Questions with respect to such a relationship in ship might include: (a) how and to what extent will transactions between the two occur; (b) how and to what extent will loans and other investments be shared or originated one for the other; (c) to what extent will operating, investment and lending policies for the two organizations be coordinated and, if conflicts arise, which interests will prevail; (d) assuming policy formulation more favorable to FGB, what provisions for enforcement of such policies exist, particularly with respect to potential effects upon FGB subsidiaries?

Answer No.2:

The issue of a relationship between Financial General and the Bank of Credit and Commerce International was considered by Sheikh Kamal Adham on behalf of the Investor group during a private meeting with the staff of the Federal Reserve Board and state bank regulators on April 23, 1981. Sheikh Adham's statement, which is responsive to this question, was as follows:

Certain questions have been addressed to us by the Federal Reserve and the State of Virginia regarding contemplated relationships between BCCI and Financial General. This inquiry is easily answered. BCCI has been a banker for certain of the Investors and, when requested, will provide investment advice to its customers. I personally have maintained accounts in that Bank, and have utilized BCCI's investment banking services from time to time. There is, however, no understanding or arrangement regarding any future relationships or proposed transactions between Financial General and BCCI. In this regard BCCI is considered an unrelated financial institution and whatever relationships are developed between Financial General and BCCI in the future, if any, are matters to be decided by the new management of Financial General based upon that institution's best interests.

Question 3:

How can relationships (existing and potential) between interests of CCAH investors be determined, analyzed and verified and, if these relationships involve FGB, how can transactions between FGB subsidiaries and other interests of the investors be identified, reviewed and analyzed for possible impact upon FGB?

Answer No.3:

The members of the Investor group have submitted to the Federal Reserve a confidential exhibit to the Application which contains pertinent information regarding their other financial interests. Verification of these interests can be obtained by various methods, including bank reference letters, independent appraisals, or review by auditors. We are prepared to resolve any questions in this regard to the satisfaction of the Federal Reserve staff.

iswer No.3:
 (cont.)

Any transactions between Financial General's bank subsidiarie and other financial interests of the Investors would, of course, be made only in strict compliance with federal and state laws and regulations, including the advance identification of those other financial interests whenever needed. The impact of any such transactions on Financial General would necessarily be analyzed and considered by the management and Board of the particular bank which is involved as well as the management and Board of Financial General.

Question 4:

To what extent will common ownership of FGB and BCCI exist, either directly or indirectly through other interests of the investors?

Answer No.4:

There is no common ownership of Financial General and BCCI.

To the extent some Investors may own minor shares of each

Company, that information has been disclosed in submissions

made to the Federal Reserve during the processing of the

Application.

Questibn 5:

To what extent will investment advice and referrals, advice on or referral of loans, participation in loans, or similar activities occur between FGB and BCCI?

Answer No.5:

See answer to Question No. 2. If any of these activities were to occur, the decision will be made by the new Board and management of Financial General based solely upon their determination of Financial General's best interest.

- 4 -

estion 6: To what extent and with what effect will there be interlockin directorships between FGB and other interests of the investor.

Answer No.6: No such interlocking directorships are contemplated.

Question 7: To what extent and under what conditions will business or financial relationships exist between FGB and other interests of the investors?

Answer No.7: See answer to Question No. 3. Were they to occur, such relationships will only exist to the extent the management and Board of Financial General determines them to be lawful and in the best interest of the Company.

Question 8: The application states (at page 18) that "...considerations relating to...the convenience and needs of the communities to be served show that the proposal is in the public interest...". In what specific respects will the public interest be served?

wer No.8: Financial General has not succeeded in realizing its full potential, and certain important facets of the operation require more attention and support if the public is to receive adequate banking service from the member banks. The applicants thus believe that the managerial strength . of Financial General is inadequate; there is a pressing need for an experienced commercial banker who can serve as the Chief Executive Officer of the Company. Further, the Company's financial resources appear insufficient. Certain of the subsidiary banks have a level of capitalization which appears somewhat low in comparison to peer group averages; and, some of the Financial General's banks will require capital in addition to that which they now possess to be able to undertake the various programs which are now being considered by their respective managements to make them more competitive.

.nswer No.8:

The Application, which is submitted on behalf of a group of Investors with very substantial means, provides expressly for an injection of \$12 million of new capital to help address these needs. In addition, the Investors are able to attract substantial deposit funds from sources to which Financial General's banks have not previously had access. The Investors can also offer the banks attractive, new business opportunities, including the likely development of profitable international banking transactions. This will be particularly important in those instances where subsidiaries are located in communities which desire the banks to augment their present services in this manner to respond to developing banking needs.

The planned increase in the financial and managerial resources of the Company will result in Financial General and each of its banks becoming stronger, more competitive institutions which are better able to serve the communities where they are located.

- Question 9:
- The application states (at page 19) that various factors "...will enable the individual banks to carry out desirable programs and be more competitive...". In what specific respect will competition be affected and, if the competitive balance in local markets is changed, will such a change be harmful or beneficial and to what extent? Is the supposition "more competitive" quantifiable or is it in fact a rhetorical generality?
- Answer No.9:
- The improved competitive position of the banks will result from the simultaneous strengthening of management at the holding company level and the availability of new capital and other funds for placement in the subsidiary banks.

(Cont.)

It is, of course, a fundamental tenet of our economic system that increased competition is beneficial in its impact and here would lead to increased efficiencies and the general development of better banking services for the consuming public. While it is difficult to quantify the exact extent to which the competition will be increased, the fact that there will be an improved, competitive environment is certainly predictable. It is thus axiomatic that improved management and broadened financial resources, including a substantial investment of new capital, will produce more competition with other banks in local markets.

estion 10:

The application states (at page 20) that "...FGB will have a much greater access to capital funds...this will result...from the investors...ability to attract other investment funds...". Other than from personal assets of the investors, where would such investment funds originate and what would be required for their availability?

Answer No.10:

The group of Investors, as set forth in the Application, has extensive business contacts in the Middle East, including relationships with other persons of substantial means with whom they have previously joined in various investments. Should there be a need for additional capital, some or all of which the Investors do not wish to contribute at that time, it is believed that these other business associates could be a source of the needed funds.

The application states that the applicants have no present intention to change management or directors at the subsidiary bank level. To what extent is such a "present intention" subject to change and under what circumstances?

Answer No.11: The ultimate decisions regarding any changes in the management or the Boards of Directors of the subsidiary banks must depend upon future evaluations to be made jointly by the new Chief Executive Officer of Financial General and its Board of Directors. However, there is no present plan or understanding that such management or directors will be changed, and indeed, representatives of the Investors have, in meetings with various of the subsidiary bank boards, expressly invited all directors to remain after the acquisition is consummated.

The application states (at page 20) that "...each of the subsidiary banks serving local markets can have the benefit of the financial support and expertise of the parent...".

Clearly, such subsidiaries now have whatever financial support and expertise as may be available from FGB. How will such support and expertise change, if the parent referred to is FGB? If some other parent, (CCAH or CCAI), which one and how can support and expertise be supplied, since the companies are acknowledged shells?

Answer No.12: It is not contemplated that either CCAH or CCAH will provide support and expertise to the subsidiary banks.

These entities are to be non-operating companies. The question, however, overlooks the important improvements that are planned for Financial General after the acquisition. Thus while admittedly the bank subsidiaries have "whatever financial support and expertise as may be available from FGB," the fact is that the present level of support and expertise is inadequate. The plans and programs referred

- 8 -

.iswer No.12: to in the answer to Question No. 8 above, (as well as (Cont.) in the Application), suggest how Financial General's

operations can become more supportive and helpful to

its subsidiary banks.

Question 13: What is the anticipated source and nature of the "stable deposit funds" expected to be made available to subsidiary banks, to which they do not now have access? What will be the quid pro quo for such funds?

Members of the Investor group themselves maintain large Answer No.13:

> deposit funds in a number of banks in other parts of the world. It is expected that certain of these funds would

> be made available to Financial General's subsidiary banks which are in position to accept them. In addition, it, is

anticipated that other persons from the Middle East and

businesses with which members of the Investor group have

contact would provide a source of additional deposit funds

for the subsidiary banks. Other than the service which a bank normally provides to its customers, there will be no

quid pro quo for such deposit funds.

The application states (at page 25) that "...centralization ...would aid this development by allowing the bank to more readily participate in loans to (emphasis added) the major subsidiary banks". Under what circumstances is a loan to Question 14:

be made to the major subsidiary banks, and by whom?

Answer No.14: This wording regrettably is not clear. It is not intended

> that loans be made to the major subsidiary banks. When worded properly, the sentence would read "...by allowing the bank to offer loan participations more readily to the major subsidiary banks." The intention is to indicate that

overline credit can be shared by the other subsidiary banks.

- 9 -

The application states (at page 26) that "...the proposed international department would have access to a large volume of commercial and international trade transactions..."

To what extent are such transactions to involve other business interests of the investors? How would such transactions serve the interests of the communities now served by FGB's subsidiary banks? Would the funds involved be drawn from these communities?

Answer No.15: An international banking department in one or more of Financial General's subsidiaries could offer banking services to the business community which are not now provided by Financial General, but which are being offered and actively developed by its competitors. It surely serves the public interest for Financial General's subsidiary banks to offer a competitive source of banking services which might be desired by the public in those communities where the banks are located. International banking activity of the type discussed would only involve other business interests of the Investors to the extent that the particular bank's management determined that a trans-_ action was in the best interest of that institution. Any such transaction would, of course, be in compliance with all applicable United States' laws and regulations.

> It is not contemplated that funds would be drawn from the local communities to make loans overseas. Rather, it is expected that the flow of funds would be in the other direction. (See answer to Question No. 13.)

- 10 -

lestion 16:

According to information supplied with the application; CCAI contemplates borrowing some \$43.6 million. Neither the source nor explicit terms of such a loan are disclosed, beyond a projected repayment schedule. From whom will such a loan be obtained? What terms and conditions will be set? What reciprocal arrangements will be necessary?

Answer No.16: As was explained at the meeting with the Federal Reserve staff on April 23, 1981, it is now contemplated that the loan may total \$50 million. The borrower is to be a Delaware corporation which will be created solely to achieve certain tax savings for the Investors. The loan is to be syndicated by a consortium bank in Europe, and the exact terms and conditions of the loan will be set forth in a commitment letter which will be filed shortly with the Federal Reserve. No compensating balances or other reciprocal arrangements involving Financial General or its subsidiary banks will be involved.

Questions 17 ` and 18:

Materials supplied with the application indicate that
the loan to be obtained by CCAI is to be serviced and
liquidated from dividends on FGB shares. FGB performance Inquidated from dividends on FGB snares. FGB performance projections (supplied with the application) indicate a rise in net income from \$18.2 million in 1980 to \$96.6 million in 1990 (431%). Cash dividend payout projected over the same period shows an increase from \$2.9 million to \$19.3 million (565%). FGB's actual dividend payout has risen from \$1.6 million in 1976 to \$2.7 million in 1979 (69%) and \$2.8 million (annualized) in 1980. If such a rate of growth is attainable, what alteration in balance sheet structure and operation of the subsidiary balance sheet structure and operation of the subsidiary banks will be necessary? How will credit and market risks in assets and liabilities be affected?

Upon what basis is the rise in net income, cash dividends and shareholders equity projected?

iswers Nos. 17 and 18: The projections in the Application were based upon the Investor group's analysis and belief as to the performance that can be obtained from Financial General with better management and greater financial support. However, a more conservative analysis has been prepared containing projections based on peer group averages of growth rates and return on assets. Those data are to be submitted to the Federal Reserve. Even this alternative analysis demonstrates that there is ample margin to meet debt service requirements while maintaining adequate capital ratios.

The precise composition of the asset and liability portfolios of each subsidiary bank can, of course, only be determined by their respective managements and the new management of Financial General. It is, however, emphasized that the Investors' goals for Financial General are intended to be obtained without special risks or adverse consequences for the banks or any diminution in the services provided to the public.

Question 19: To what extent will FGB and its subsidiaries be liable on the debt of CCAI?

Answer No.19: Neither Financial General nor its subsidiaries will be liable on the debt to be incurred.

uestion 20:

If the projected cash dividends to be upstreamed to CCAI are not made, to what extent will FGB assets and those of its subsidiaries be subject to liquidation or encumbrance to meet CCAI debt service requirements?

Answer No.20: Neither the assets of Financial General nor those of its subsidiaries will be subject to liquidation or encumbrance to meet debt service requirements. Appropriate capital ratios in each bank will be maintained, and the Investors have advised that they are prepared to service the debt of the Delaware Corporation out of their personal funds in any year that the income from Financial General is inadequate.

Question 21: It is assumed that the investors will retain control, directly or indirectly, over major policy-making functions. Should such policies as may be adopted prove detrimental in some respect to FGB and its subsidiaries, under what circumstances and to what extent will the sources of policy be accessible and amenable to regulatory agencies?

Answer No.21: The question proceeds from an erroneous assumption.

The Investors do not intend to direct policymaking or to establish major policies within Financial General, or its subsidiaries, after the acquisition has been completed.

The sources of bank policy are to be the Boards of Directors and the management of each of the subsidiary banks with supervision by the management and the Board of Financial General.

Answer No.21: (Cont.)

The selection of the members of the Board of Directors of Financial General is to be handled by the attorneys for the Investors who will also suggest for the Board's consideration a candidate to serve as Chief Executive Officer. As previously explained, well-qualified Americans of distinction are to be asked to serve in these positions.

The persons who will establish policies for Financial General, and its subsidiary banks, will be readily accessible to the regulatory agencies.

Question 22:

To what extent and for what period of time do the Investors consider themselves bound by statements supplied in answer to or connection with any of the foregoing questions?

Answer No.22:

The answers supplied to the foregoing questions are true and correct, and the Investors consider themselves fully bound by such answers indefinitely.

SKADDEN, ARPS, SLATE, MEAGHER & FLOM

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> Committee on Banking, Finance and Urban Affairs 2129 Rayburn House Office Building Washington, D.C. 20515

- I am writing on behalf of Clark M. Clifford and Robert A. Altman in connection with their appearance before the Committee on Banking, Finance and Urban Affairs on Wednesday, September 11, 1991. As you are aware, during the course of their testimony, there were several requests for certain documents made by members of the Committee. In addition, Messrs. Clifford and Altman also made reference to several documents during their testimony and requested that those documents be made part of the record. The above-referenced documents included:
- l. correspondence and memoranda relating to Mr. Ryback's letter in December 1989 inquiring about BCCI's possible participation in the financing of the purchase of shares at the time of the tender offer and our knowledge of any outstanding loans by BCCI to CCAH shareholders;
- 2. the results of internal audit of First American memorialized in a report from James E. Lewis to Bryan Yolles dated December 4, 1990, and an internal memorandum by Lawrence Quinn to Bryan Yolles dated March 20, 1991 of an interview with David Dawson, an examiner from the Federal Deposit Insurance Corporation, confirming that there was no evidence to suggest that First American was involved in money laundering;
- 3. a copy of the Senate subpoena addressed to Mr. Khalid Awan;

- 4. a copy of the transcript of the hearing before the Federal Reserve Board on April 23, 1981;
- 5. a copy of the letter from J.P.G. Wathen, the vice-chairman of Barclays Bank Limited to Mr. Altman dated April 22, 1981;
- 6. a copy of Bank of America's press release dated September 1, 1978; and

The documents described above are attached to this letter and found at Tabs l through 6, respectively. In addition, I have enclosed copies of the errata sheets in connection with the transcript of Messrs. Clifford and Altman's testimony which, by separate cover letter, we have sent to the Printing Editor of the Committee.

Sincerely,

Robert S. Bennett

Attachments

FEDERAL RESERVE BOARD

Meeting regarding applications of Credit and Commerce American Holdings, N.V., Willemstad, Netherlands, Antilles, and Credit and Commerce American Investment, N.B., Amsterdam, Netherland ("Applicants") to acquire Financial General Bankshares, Inc., ("F6").

April 23, 1981

The Board met in Room B 1215, Main Board Building, at 20th and Constitution, N.W., Washington, D.C., at 9:39 a.m. ROBERT E. MANNION, Chairman, presiding.

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INDEX

<u>Page</u>
STATEMENT OF SHEIKH KAMAL ADHAM 51
STATEMENT OF CLARK CLIFFORD 18
STATEMENT OF FAISAL SAUD al FULAIJ 63
STATEMENT OF ABDUL RAOUF KHALIL 65
STATEMENT OF EL SAYED GOHARY 67
STATEMENT OF SIDNEY BAILEY 10
Federal Reserve Board:
Robert E. Mannion, Deputy General Counsel, Legal Division John E. Ryan, Director, Division of Banking Supervision and Regulation Don E. Kline, Assistant Director, Division of Banking Supervision and Regulation James E. Huffman, Supervisory Financial Analyst, Division of Banking Supervision and Regulation James S. Keller, Senior Attorney, Legal Division James Burke, Economist, Division of Research and Statistics
Applicants:
Sheikh Kamal Adham, Saudi Arabia Abdul Raouf Khalil, Saudi Arabia Faisal Saud al Fulaij, Kuwait El Sayed El Sayed El Gohary, Saudi Arabia Clark Clifford, Clifford & Warnke Robert Altman, Clifford & Warnke Baldwin Tuttle, Kutak, Rock & Huie James Fogelson, Wachtell, Lipton, Rosen & Katz
FG:
Mr. Jack Beddow, Secretary & Executive Vice President Mr. George M. Rogers, Jr., Shaw, Pittman, Potts & Trowbridge
Federal Reserve Bank of Richmond:
Lloyd Bostian, Jr., Vice President, Examining William Spaulding, Jr., Senior Examiner William D. Martin, III, Vice President & General Counsel

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Donald L. Welker, Associate Economist, Research Department

Comptroller of the Currency:

Robert R. Bench, Assistant Chief National Bank Examiner, Multinational Banking Darrell W. Duchow, Deputy Director, Bank Organization and Structure

State Supervisory Agencies:

Maryland

Charles R. Georgius, Deputy Bank Commissioner

New York

Geofredo Rodriguez, Supervising Bank Examiner

Virginia

Sidney A. Bailey, Commissioner of Financial Institutions William Schutt, Associate General Counsel, State Corporation Commission

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PROCEEDINGS

(9:39 a.m.)

MR. MANNION: Good morning, I am Robert Mannion. I'm the Deputy General Counsel of the Board of Governors of the Federal Reserve System. I'm pleased to welcome you here to an informal meeting that has been scheduled by the Board of Governors of the Federal Reserve to consider the applications of Credit and Commerce American Holdings of Willemstad, Netherlands Antilles, and Credit and Commerce American Investment of Amsterdam, Netherlands, to acquire Financial General Bankshares, a registered bank holding company with banking subsidiaries in Maryland, New York, Tennessee, and Virginia.

By letter of April 8, 1981, from the Board's assistant secretary, counsel for the applicants was advised of the Board's decision to have a meeting with respect to the applications.

At the same time, the banking supervisory authorities for the states of Maryland, New York,

Tennessee, and Virginia and the Comptroller of the

Currency were invited to send observers to the meeting and participate in these proceedings.

Subsequently, it was determined that the hearing or the meeting would be held today, April NEAL R. GROSS

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23rd, and all the agencies and the applicant were so advised.

The various parties that have agreed to send observers and participate are here with one exception which may be joining us later. The state of Tennessee declined to send an observer or to participate formally in this proceeding. Maryland has indicated that they will be sending an observer, although that representative is not yet here.

New York has sent Mr. Geofredo Rodriguez.

Mr. Rodriguez, if you could just raise your hand
to identify yourself? Supervising bank examiner
for the state of New York, to act as an observer.

And in sending Mr. Rodriguez, the state of New York
wanted the following statement to be made and it
is contained in an April 20th letter to the Board's
assistant secretary.

"We request that the Board staff make it clear that the Department reserves the right independently to review any application filed by CCAH or CCAI or their principals and to make such further inquiries and conduct such further proceedings as it deems necessary or appropriate in connection therewith.

And that the Department's participation or lack of participation in the Board's meeting does not constitute

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a waiver or abridgment of the foregoing rights."

If the applicants want a copy of that letter, they'll be free to get it after the proceeding.

Is there anything further that has to be added, Mr. Rodriguez? Is there anything further that has to be added on your behalf?

MR. RODRIGUEZ: I don't have anything further to add.

MR. MANNION: Okay. Joining us now is the representative from Maryland, Mr. Charles Georgius, Deputy Bank Commissioner of the state of Maryland. Maryland has indicated that they want to have an observer at the meeting. They will not be participating directly.

Virginia has indicated that they would like to have an observer as well as participate, and Commission Sidney A. Bailey, Commissioner of Financial Institutions, is here. Mr. Bailey is sitting there. And Mr. William Schutt, Associate General Council of the State Corporation Commission is here. Mr. Schutt.

Finally, the Comptroller of the Currency
has indicated that they did not want to participate
directly in the meeting, but they have sent observers.

Mr. Robert R. Bench, Assistance Chief, National Bank

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Examiner, Multinational Banking is here. And Mr. Darrell Duchow, Deputy Director, Bank Organization and Structure is also here.

Sitting with me at the head table are representatives from the Board of Governors. To my left is Mr. Jim Keller, senior attorney in the Board's legal division. To his left is Mr. Lloyd Bostian from the Federal Reserve Bank of Richmond. Further to his left is Mr. William Martin, the general counsel of the Federal Reserve Bank of Richmond.

To my immediate right is Mr. John Ryan, Director of the Division of Banking Supervision and Regulation.

To his right is Mr. James Huffman, Supervisory Financial Analyst, Division of Supervision and Regulation.

And to his immediate right is Mr. Don Kline, Assistant Director, Division of Banking Supervision and Regulation.

Now, in addition, there are two other members from the Federal Reserve Bank of Richmond who are in attendance. Mr. William S. Spaulding, Senior Examiner, in the corner over there, and then Mr. Donald L. Welker, Associate Economist of the Research Department.

Mr. -- as I understand it, Mr. Clifford on behalf of the applicants would just like to introduce the applicants, and then we will proceed with the

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 formal part of the meeting.

MR. CLIFFORD: Thank you, Mr. Mannion. On my immediate right is His Excellency, Sheikh Kamal Adham of Saudi Arabia. On his right is Mr. Faisal Saud al Fulaij of Kuwait. On his right is Mr. Abdul Raouf Khalil, Saudi Arabia. And on his right at the end of the row is Mr. Sayed El Gohary of Saudi Arabia.

The lawyers here are my partner, Mr. Robert Altman. He and I are from the law firm Clifford and Warnke. And on his left is Mr. Baldwin Tuttle, with whom we have associated in this matter. He is with Kutak, Rock and Huie. And on his left from New York is Mr. James Fogelson. He is with the firm Wachtell, Lipton, Rosen and Katz.

There are two representatives of Financial
General Bank Shares here. They are Mr. Jack Beddow
sits there. He is Secretary and Executive Vice President of Financial General. And with him, Mr. George
M. Rogers, Jr., an attorney. He is with the law
firm of Shaw, Pittman, Potts and Trowbridge.

Those are the individuals appearing on behalf of the applicant.

MR. MANNION: Thank you very much, Mr. Clifford.

As indicated in the Board's letter of April 8 to

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counsel for applicants, this is going to be an informal meeting but we have a very general structure that will be followed.

To begin with, all of the supervisory agencies were given the opportunity to raise specific questions. for consideration at this meeting. Only the state of Virginia availed itself specifically of that privilege.

There was an earlier letter of comment that was filed by the Comptroller of the Currency. I believe the date is March 12, 1981, wherein the Comptroller's office raised certain questions, but in response to the Board's invitation, only the state of Virginia submitted questions in a letter of April 14, 1981, a copy of which I believe has been distributed at this meeting and was previously made available to the applicants.

In accordance with the procedures that were outlined in our letter, the first step at the meeting will be to hear from Commissioner Bailey from the state of Virginia who is given the opportunity to make an opening statement and amplify on his questions to the extent that he deems appropriate.

Commissioner Bailey, we are delighted that you joined us, and we look forward to hearing from

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COMMISSIONER BAILEY: Thank you very much, Mr. Mannion. My statement is addressed in form to the Board of Governors. However, the comments are general in nature, and can be accepted, of course, by the applicants.

Can everyone hear me, incidentally? I have an unfortunate tendency to mumble. Can you hear me back there, Bob? If you can, everybody can.

My statement is this. At the invitation of the Board of Governors, the Bureau of Financial Institutions has previously submitted several questions to the Board in writing with the understanding that those questions are to be addressed by the applicant.

Those questions are fairly specific and generally either concern statements made in the application or ask for elaboration upon other points of interest.

The concerns sought to be addressed by means of those questions are of a supervisory nature. They include, although not necessarily in order of importance, one, whether United States laws and regulatory policies can be applied and enforced effectively with respect to the applicants and their principals; two, whether the resulting organizations controlling or policymaking interests can be determined and will be accessible through the several layers of management which would

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exist; three, whether resources will be diverted from the supporting market areas of the subsidiary banks of Financial General Bank Shares; and four, whether in this last respect, the allocation of the several banks' resources may be so changed as to disrupt the flow of essential banking services in individual communities; five, whether relations with other nonbanking interests of the investors will be of such a nature and extent as to become detrimental to the soundness of the banking institutions involved; and six, whether information supplied by or about related or affiliated foreign organizations can be reliably evaluated using commonly accepted accounting standards and legal principles; and seven, whether extensions of credit and other transactions between the domestic banking organizations and their foreign parents can be discovered and, if necessary, controlled and, perhaps, as the ultimate regulatory issue; eight, whether the risk that these potential problems may occur -- and such a risk does exist -- is acceptable when weighed against the broadly generalized but unsubstantiated claims with which the applications are replete. And that is that various benefits will result to Financial General, its subsidiary banks and the communities now served and to be served by

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those banks.

The final question must then be: Whose interests would be served by this proposed acquisition and at what cost and damage to what other interests?

Beyond the more specific regulatory questions raised to this point, these applications involve several basic issues with broad public interest implications.

These issues clearly warrant careful consideration by the Board in deciding whether o approve or deny this request.

First, what is the motive giving rise to this protracted, expensive campaign to buy Financial General? Allegedly, Financial General is viewed by these applicants simply as an investment, but it is obvious that the price which the applicants are prepared to offer for control of Financial General bears little logical relationship to either the actual book value of those shares or their price in the market prior to the initial stimulation of the market by the applicants or their agents.

There can be little doubt that some incentive other than orthodox investment motives must have prompted this effort. Virtually endless speculation on this question is possible. Why choose Financial General when numerous other investment choices with more

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attractive financial characteristics would have been available?

One obvious plausible answer to this riddle lies in the unique position of Financial General in the market. No other single financial institution is situated in both the financial and government hubs of the United States.

Now, given existing statutory restrictions on structure, and the potential usefulness of such a dual market is remarkable. Now, looking to the future, it would not be surprising if, in an effort to advance — I'm sorry, in an effort to destroy this unique competitive advantage of financial general which, of course, arises by virtue of its grandfathered rights, removal of those restrictions — that is, structure restrictions, geographic restrictions were to be sought vigorously.

It might even be expected that the interests controlling Financial General Bank Shares would join in this effort since further expansion of geographic markets might be deemed by them to be desirable. The weapons and pressures available to these interests could introduce international political consideration, thus tending to thwart the workings of free market economic and democratic political processes.

Now, second, from the various materials

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furnished in and with the applications, it is clear that the applicants represent directly or indirectly principals and interests of various foreign governments whose objectives might not always necessarily coincide with the best economic interests of that segment of the public now served by Financial General and its subsidiaries.

Now, there is no intention to imply here that those interests and objectives are anything other than honorable and legitimate, potential differences in viewpoint are inevitable. The preservation and promotion of domestic interests appears clearly to deserve a fair amount of concern by the Board in such circumstances.

Third, the extremely sensitive question that whether foreign acquisition of United States banking organizations is in the public interest as a general matter remains unsettled. A study completed in 1980 by the stasff of the Federal Reserve Board concluded generally that there is no reason to believe that such acquisitions have been detrimental in any major respects.

However, it must be noted that the conclusions drawn as to the effect of such acquisitions were based on extremely limited data, both as to the number of cases observed and the limited time available for such observations.

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It can be said with nearly absolutely certainty that the evidence is not all in. Even if the data relied upon in this study proved to be adequate as a basis for valid conclusions as to the predictable results of future foreign acquisitions of domestic banks, still certain factors common to previous acquisitions of major banking organizations are absent here.

In many of the cases studied, the acquisition was desirable because the bank to be acquired was failing or in a seriously weakened condition.

That justification, of course, is not relevant to the present case. The study further notes at page 31 that the large acquisitions that have taken place have been by strong and refutable foreign organizations that are recognized as such in their own countries and in international banking markets.

That characterization likewise cannot be said to apply in this case.

and reputable foreign banking organizations." In fact, neither, according to the applications, has any real substance. Both are merely vehicles constructed for tax advantages. Reference is made in the February 23, 1979, statement of policy on supervision and regulation of foreign bank holding companies of the Federal Reserve

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Board itself, to the Board's belief that "Foreign bank holding companies should be strong reputable organizations with banking experience."

It is difficult to see how these applicants fit that description. In my view, the regulatory and policy consequences of approval of this proposal involve the potential for drastically reoredering the banking structure of the United States, not through enactment of deliberate reasoned legislative change, but almost by accident through the interaction of commercial and regulatory forces.

It is preferable if such a chance is to be made that the legislative route be followed. While an acquisition such as a present one may not controvene the laws governing international acquisitions, I believe that it is a resource which is clearly not contemplated by existing law.

There has been in my view some effort to picture Financial General as the domestic holding company after the proposed take over as well as before it. That may, in some sense, be true. However, CCAH and CCAI should be and must be treated as what they are; in fact, and in law, foreign bank holding companies.

Inasmuch as there is no crisis which demands that these banks receive assistance from some quarter,

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the Board should, in my opinion, apply to CCAH and CCAI the standard announced in its statement of policy.

It should find that these corporate shells are not "strong reputable organizations with banking experience," and should not approve this application.

Thank you very much.

MR. MANNION: Thank you very much, Mr. Bailey. As I understand it, Mr. Clifford, you have an opening statement on behalf of the applicants, and the Board's letter to counsel for the appliants, the Board indicated it was desirous of having a presentation from the applicants addressing the factors that the Board must consider under section 3C of the Bank Holding Company Act.

Basically, the competitive standards; also the financial and managerial resources of the applicant as well as the convenience and needs of the communities that are to be served.

It was also our intention for the applicants to address the questions in whatever fashion they deem appropriate that have been raised by Commissioner Bailey both in its written submission as well as his comments now.

In addition, as I mentioned earlier, the control of the currency has addressed certain questions or subject areas that he believes that the applicant

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should address, and he raised those in his earlier letter to the Board and in our April 17 letter, I believe it is, we outline several areas that we believe would be appropriate for the applicants to address in this meeting.

So you may proceed, Mr. Clifford.

MR. CLIFFORD: Thank you, Mr. Mannion. We welcome this opportunity to detail to the representatives of the Federal Reserve Board the project in which we believe so deeply.

We also welcome the participation of representatives of the various states because we are happy to have the opportunity at the same time of appearing before them and having them hear in detail the nature of this project.

So that you might understand our method of submission, I will make a narrative statement that will start at the beginning and give everyone the same basis. I'm not going to go into too great detail, but I will cover the whole bankground of the matter so that some questions that have been raised I think will very likely to be put to rest in such statements.

In the course of my comments, I believe that a number of the areas of discussion raised by the Board's letter I think will be touched upon. Hopefully, we

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will touch upon all of them before we're through. At the conclusion of my comments, Mr. Altman will make a brief statement because we have divided -- through the last three years of this effort, we have divided our work.

I have taken the general phase of it. Attended many of the meetings -- most of the meetings whereas Mr. Altman and Mr. Tuttle have handled the financial arrangements and attended a number of meetings that I was unable to attend that devoted themselves to financial problems.

I have listened with interest to Mr. Bailey. We appeared before Mr. Bailey in Virginia. He indicated that he was not in sympathy with our application at the time. I am happy now, Mr. Bailey, to get the details of the position that you have taken.

We have read with great interest your memorandum of 22 questions. What we would like to do in that regard, because those questions have been placed in writing, because they are detailed in many instances, and a number of the questions perhaps ask three, four and five different questions, because those have gone into the record, we would like to file written answers to those.

We will do so if we perhaps are allowed a

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week after the conclusion of this meeting. We will have written answers in. We do that for two reasons. One, possibly we could rather satisfactorily answer them because we believe that we have an answer for every question that Mr. Bailey has raised.

At the same time, we want to be sure that every point is covered, and that in an oral presentation, we may not have overlooked some possible item.

It is our hope that when we answer Mr.

Bailey's questions, Mr. Bailey, that you will be satisfied with our answers and with our position. I might say that it is our further hope that in the event the Board looks with favor upon our application, and the other states do, that we would be back dealing with Mr. Bailey, and I would look forward to many years of an agreeable relationship between us, Mr. Bailey.

I think that it would be helpful if I first generalized some about this particular project. We have brought into our group some very prominent Americans. I will go into more detail later in that regard. One of the reasons they have been interested in it is because there is a growing feeling among many thoughtful and experienced Americans that it is in the interest of our country that if an effort is made to bring back to the United States as many of the dollars as we can

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that through the year we send over to the OPEC country. Those sums are very large. Last year the United States send some \$90 billion in payments for crude over to the Persian Gulf countries.

If those funds are taken and invested in West Germany, Great Britain, Switzerland, where they might be, they bring no benefit to the United States at all. If they flow back here and are invested back in United States activities, the feeling now certainly now in certain circles that the country benefits from that kind of effort.

I might say that once in awhile, one hears or reads some criticism over foreign investment in the United States. My own feeling is a strong one. I differ with that.

I think that the world is changing so rapidly that one of the great answers to the difficulty in the world is in increase in the industrial and commercial intercourse among the nations of the world, and I might say in that regard, although it sounds as though it is a rather large figure, last year I have is '79, foreign nationals in 1979 invested \$52 billion in the United States. That sounds to be a rather large figure until at the same time you look further and find that in that exact same period, United States nationals and United

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States corporations invested \$194 billion in all the various countries of the world.

So for every dollar that foreign nationals invest in this country, the United States is investing approximately \$4 in foreign countries, and I think that that brings into operation the kind of commercial activity that is, I think, so necessary to the future of the world.

We have been gratified in the course of this proceeding to note that Chairman Volker of the Federal Reserve has indicated that he thinks benefits under proper circumstances accrue to domestic corporations by either acquisition or substantial investment in those companies by foreign nationals.

We have been gratified that the control of the currency in testimony upon the Hill has taken very much the same position. I coho the point that Mr. Bailey did in which he says, to date, in those instances in which foreign investments have been made in United States banks, in each instance the record shows that the bank has benefited by reason of that foreign investment.

I agree, Mr. Bailey, that the record is not a complete one, but at least up to date, we find that that development has taken place.

Last comment of a preliminary nature.

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A revolution is taking place, it would appear, in banking in this country. I've noticed recently the acquisition of the Bates Brokerage Company by Prudential. Within the last two or three days, American Express has bought another large one. Each -- in each instance, they talk about increased services that they will give to the public.

I see funds being formed at which very substantial interest is being paid, and banking services or some banking services are being offered. Like, "Come in and invest our fund, and open a checking account with us, "which traditionally it has always been reserved, it seems to me, to bank operations.

I am suggesting that the pressure on the traditional banking operation in this country is increasing all the time. I also suggest that in an effort to meet that increased competition, I would feel very comfortable if we all end up our group working in behalf of Financial General.

I would feel very comfortable if our member banks, all 12 of them, have the kind of financial support and resources that our group brings to them, as they face the increased competition from all different sources in the years that lie ahead.

I think that this is an excellent and most

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timely and appropriate time for additional help to come.

On a local basis, I notice that Riggs now is going to receive perhaps more support from some sources that have come in.

I like the feeling that the banks in our family -- and I've become really quite intimately acquainted with them -- will be able to have the kind of support that they will have in the event that we are ultimately successful in arranging for the acquisition of the stock.

Let me get now briefly to the background a bit. On my right is His Excellency, Sheikh Kamal Adham. He has been a prominent businessman in Saudi Arabia for many years. He has been interested in making investments in different parts of the world. I have been gratified at my many talks with him that he has said that he looks with favor upon investments in the United States because of the political stability that exists in the United States, and we have just witnessed an election that went peacefully. We have witnessed other events that could cause really incredible upheaval in another country, and our system has, it seems to me, worn very well, and has met the challenges of these last years.

At one time his excellency became interested in Financial General. And whereas some have NEAL R. GROSS

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 suggested that there was something sinister or ominous about that, an inquiry into the facts reveals that it was really quite routine.

His Excellency had a friend who was associated with the Saudi Arabian Embassy. Fact is, I have some recollection that maybe this friend was director of information or had previously some position of that dd kind. His friend had contacts --Mr. Mittendort was one at the time that Financial General stock was being offered to the public, and it appeared as though it would be a good investment.

One reason that it appeared to be a good investment was the reason that Mr. Bailey mentioned, that it is a bank holding company with an unusual charter which many years ago was grandfathered, and perhaps had a greater potential than other banks that might have been available at the time.

His Excellency became interested in it.

He interested some of his associates and friends. There

are a number of them that will move together. He will

say, "I think I have found a good investment." He passes

the word down. Some of them agree to come on in, and

often times they move in that way.

Also for many years he has been a customer of the Bank of Credit and Commerce in London.

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He banks there. He's had an account there for many, many years. He also used -- we refer to it as BCCI. He used BCCI as an investment advisor and, many times based upon their advice, he made investments. He's been satisfied with the recommendations. He asked them in this instance to look into this investment -- investment of Financial General.

They looked into it. Found that it offered attractive possibilities and potential, and they
recommended it to some of their other customers so that
is the origin of the beginning of the investment in Financial General.

Now, after he and some of his associates had purchased some 18.6 percent of the stock, then that came to the attention of Financial General. At that time -- this was three or so years ago, Financial General was violently opposed to any kind of a take over. And so they did what most companies do. They employed counsel, expert counsel in resisting take over, and counsel consulted with the SEC and the SEC brought a suit based upon the fact that the theory was that these men who had brought 18.6 percent constituted a group.

His Excellency -- we've talked about that on occasion -- was not conscious of being a part of any group. I think he was conscious of the fact that others

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had bought some, but they'd not bought them jointly.

From my standpoint, I've always been in grave doubts that it was a group, but after the SEC

brought the suit, then we, for the first time, were employed.

And we went into the matter at considerable length. We had our alternatives. We could then go into the SEC and contest the charge based upon the technical allegation that these men constituted a group and, if so, they should have filed a 13-D, which they had not. Because of the four men then involved — three or four, none of them owned as much as five percent.

At the same time, we thought, now, what's the purpose of that? Why go in and contest this? It could be expensive, lengthy. There is no problem about a disclosure in any event. If the court rules technically that it is a group or it isn't a group, there is still no problem about disclosure. We felt that it was in the interest of expedition and use of good judgment, looking forward to ultimate acquisition, we went in and agreed with the SEC that 13-D's would be filed, and they were filed.

I mention that not at great length, but again, some effort had been made back in the litigation which was very vigorously contested to make it appear

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as thought there had been some real violation of law, and I suggest to you that there has not been at all.

In the process of litigating with Financial General, we got to know them much better, and they got to know us much better. So curiously, instead of the divisions increasing and the schism becoming more dramatic, the exact opposite took place. The meetings — the hearings became friendlier and friendlier all along, and at one point in the spring of last year — the spring of 1980, Financial General contacted us and said, "Why don't we sit down and see if we can't work the matter out? Here we have been engaged in this imbroglio these past couple of years. It is really not producing anything. This could go on forever."

We said, "We'd be glad to talk with you about it," and we sat down and negotiated for some months and finally on July 25, 1980, arrived at a complete agreement for the acquisition of the stock in Financial General.

One of the reasons Financial General opposed us, according to the chairman, Mr. Frank Saul, whom I have come to know and admire and have great respect for in the process of the last three years. He said that, "We feel a certain obligation to this community and to the other communities in which our banks operate.

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We just want to know more about the people who will be taking over the bank."

He had occasion to go to London, maybe more than once. He had occasion to go to the Middle East, the Persian Gulf countries. I remember later on his talking with me, and he said, "I have looked into the reputation, particularly of the leader of the group, of His Excellency, Sheikh Kamal Adham." And he said, "It's difficult to recall a time when I have heard some universal commendation for an international businessman. I hear it in London. I've heard the most commentatory comments. I've heard about him in countries of the Persian Gulf. I have not heard one whisper of criticism against this man." and he said, "I feel perfectly comfortable about this group, headed by this man, coming in and taking over our banks."

Just recently I talked to Mr. Saul. I thought it might be advisable if we had in the record a comment by Financial General or by the Chairman of Financial General, so that it was not just all oral. In one minute, I can read the letter. The letter is dated April 21, just two days ago, addressed to the Board of Governors. I will give it to you, Mr. Mannion.

And it says, "Gentlemen, Mr. Clark Clifford has suggested that I write you concerning our

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relationship with the Middle Eastern investors who propose a tender offer for Financial General Bankshares. It is our view that proposed tender offer is in the best interest of our stockholders, and therefore, both management and the Board of Directors of Financial General fully support the proposed tender offer. In addition, based on our knowledge of the plans and resources of the Middle Eastern investors, it appears to us they are in a position to bring substantial new capital and banking business to Financial General.

"Last summer after our agreement between the parties was signed, the Board of Directors of Financial General elected Mr. Clark Clifford, Senator Stuart Symington, General Elwood Quesada to our Board of Directors. These three gentlemen have proven to be a real asset to our Board. Their advice, council and interest in our affairs is greatly appreciated. I'm sure that they will continue to provide Financial General with outstanding leadership and guidance. Very truly yours, B. Francis Saul, Chairman of the Board, Financial General Bankshares."

I wanted you men to have the feel that,
even though this was vigorously contested and, as a result,
got in the paper quite a good deal, the parties came
to know each other. The parties came to understand each

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 other. The parties came to have confidence in each other and that is the result to which I have just appeared there.

I turn now, if I might, to a discussion of the features and the factors involved here in the acquisition. This has to do with our plans for Financial General. More particularly, it concerns the statutory factors for the Federal Reserve Board to consider under section 3 of the Bank Holding Company Act.

As I've said, the reason that our investors are here, and the only reason that they are here, is because they feel that this is an excellent investment. We all know that it has a unique franchise. As I have gotten into it and learned more about it, I have regretted that I have not been able to invest in it, which I cannot because I am an insider.

I think it has a great potential, and I think that I can understand how these men have seen it.

I am going to be interested in participating in the development, if the Board sees fit to grant that.

This investment on the part of these gentlemen can best be described as a passive investment. They do not intend to interfere with the operation of this property. They do not intend to sit on the Board of Directors. They do not intend to instruct the managers

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 of Financial General or of the bank, how to conduct their business. They think it is an excellent investment. These investors are not bankers. They are businessmen. They do not feel qualified to operate banks or to give instructions as to how banks are to be operated. What they do wish to do, and what their plan is, to get the right people in to operate the property.

Now, they came to us some 2-1/2 years ago. We got interested in the matter, and I have given, I think, to a certain extent, maybe the majority of my time to this matter since. I am prepared to give the majority of my time to it in the future. These gentlemen have said that they are looking to us to represent them. They are 7000 miles away. It's a long trip back and forth. They don't intend to come back and forth. They told us what it is; that this is a passive investment.

to get the best people on the board that we cdan get.

they told us that they would hope that we could find
a top, very well regarded commercial banker who would
come in and operate as president and CEO of Financial
General.

I have agreed with them. We have grown very close through the years. One time we got to

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the point where it was some hesitation. They asked
me how old I was. And I told them how old I was. But
I said, "before I was going to let them be concerned
about that, I would check the actuarial statistics, which
I did, and without divulging my age, I have an actuarial
expectancy of 10.1 years.

So I intend, if you know who is willing, that I will devote my primary attention to this. I think it has fascinating features. One, I think it has great possibilities; one, I would like to see the property taken and given the kind of dynamic management that I think it can be given.

In looking at section 3 and I do not present myself as a banking expert, but I sure am an expert on section 3, and I know that one pretty well. Let me say, it seems to me as I read it and study it, that to a great extent has to do with competitive factors.

I know of no anti-competitive question here at all. I've not ever heard it raised at any time. The fact is, I believe this entire effort will prove to be pro-competitive. I think that some of the banks that need assistance, I think we can give it to them, and I think the banks can constitute a competitive factor in the areas in which they operate.

Now, the Act refers to managerial resources,

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and in that regard, our first step is to go out and get picked men to come to the board of Financial General.

These were not casual selections. We went out and we interested Senator Symington. I'd say he and I have been friends for a long time. I come originally from St. Louis, and I first met him as a successful younger businessman.

He came out from New York to head up what was then the largest company in Missouri, the Emerson Electric Company, 40-50,000 employees. He made really a signal success of that particular assignment. So his background is that of a businessman.

He was elected to the Senate later on, but before being elected to the Senate, he had an enviable record in the executive branch of government. Starting in the Truman Administration, he held six different positions in the executive branch of government, ending up as the first Secretary of the Air Force when the Defense Department was created.

In each of those six instances, he had to
be confirmed by the United States Senate, and he is proud
of the fact that in all six confirmations, the result
was not one negative vote. That's the kind of record
he has. He served 24 years in the United States Senate.
He served on the Armed Services Committee. He served
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on the Senate Foreign Relations Committee, and I think achieved nation-wide respect.

He is now retired from the Senate. He is interested in this. He served for many years in St.

Louis on the board of the second largest bank there so as a businessman and as a board director, he has a good deal of background as far as banking is concerned.

He has come into the matter. He is going to serve in whatever capacity that it is felt in which he can be most helpful.

The other man we selected, again, with great care is a man named Elwood Quesada. His early career was as a Lt. General in the Air Force. He commanded with distinction all American Air Force activities in England during the war, and did so very successfully. He came back; went into business and when David Rockefeller had the concept of the L'Enfant Plaza, he selected Quesada to be the manager of L'Enfant Plaza. He did that. That was a very successful venture. He had served also as chairman of the aviation administration.

So he, again, during his career served for many years on a bank here in Washington, D.C.

I shall not dwell upon my background. I will add only that for 20 years, I also served on a bank board here in Washington. So the three of us have

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rather substantial experience in serving on boards.

We have come into Financial General.

We have come into Financial General. I am gratified that Mr. Saul has felt we've made a contribution. I think we do have a contribution to make. We have a fourth man that we are going to put on the board. He is prepared to come in any time that he is invited. He's gotten interested in it. He's kept up with it.

I've always been a great admirer of his.

G

His name is James Javin -- J-a-v-i-n. He also had a

military background, but after leaving the military,

he became head of Arthur D. Little. And under his supervision and aegis, Arthur D. Little, in the opinion of

many, became the leading business consulting firm in

the United States.

It was a very successful operation. He had to leave it once for a period of two or three years because President Kennedy, at the time, was having quite a lot of difficulty with General DeGaulle in France, and he wanted to pick an experienced, able man as ambassador, and he picked Mr. Javin and sent him over as our ambassador, and he served with distinction there and came back and resumed the chairmanship of Arthur D. Little and Company.

He's now retired from that. He and I have had good personal talks. He and Senator Symington and

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I have talked about this, and he merely awaits the call to come in and serve on the board.

Now, in the course of our getting interested in this project, we have gone to the member banks. Some of them are fairly good-sized banks; some of them are small sized. Bob Altman and Baldwin Tuttle and I and Senator Symington, we've been to all but I think -- we've been to 10 out of the 12. The two smallest, we haven't got made because we got pressed.

In each instance, we'd have luncheon first with the management of the individual banks, and then we would meet with the boards, and it was a very interesting experience. Same kinds of questions in a number of instances would come up. Some of the questions that Mr. Bailey has asked in his written questions came up.

And in every instance, we talked with them; answered their questions. And we said to them, and I say to you that as far as the individual banks are concerned, in each instance we have asked the management to remain in charge of that bank. In each instance, we have asked the board of directors to remain, and although there may have been some question prior to our meetings, at the ends of our meetings after long exchange — some of them would last three or four hours — I don't know of anybody who has in mind either in

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management or on the board that is thinking of resigning. I think that they do now understand that this could be a definite assistance to the individual banks. We want to keep the autonomy that has existed in the past.

You go to a small town and there's the bank. They are accustomed to dealing with those individuals.

They read something in the paper about maybe the bank holding company might be bought, and they say, "Will that make any change here?"

And in each instance, management has said,
"None, except the hope that maybe we will be able to
render better service to you in the future." The boards
of directors will remain the same. So that this provides
I think an answer in itself to a number of the questions
that Mr. Bailey has raised. That the policies of these
banks are going to be made by the management of the bank
and by the directors of the banks, and they are going
to stay the same.

There will be some attrition. The bank directors are elderly. They would be replaced, but they would be replaced by consultation with management and other board directors. We want each of these banks to continue to serve the locale. That's their basic strength.

What we hope to do is strengthen the bank,

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make it better able, and perhaps make it -- put it in position where it can furnish services that it does not now service.

I might say in that regard also that our investors -- and I think perhaps when you hear from them, you will get a repetition of it -- they want the Financial General operation to continue to be a United States operation. There has been no indication that any of our investors -- fact is, we've asked them. None of them want to go on the board. None of them have any nominees to go on the board.

His Excellency has said to me, "One of your functions -- it may not be a legal function, but one of your functions is to continue to get outstanding Americans to come serve on the Financial General Board.

We want to be sure that the image of the Financial General is kept to be the same. It is an American operation. The stronger board you get, the better management you get, the better the banks are going to be; the better the earnings of the banks will be, and the better investment it will turn out for us."

I agree with that. I might say for the purpose of the record, I have accepted that responsibility and I will continue to comply with that responsibility as long as I am permitted to do so by health and any

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other circumstance.

I do not intend to let any other obligation that I have interfere with this commitment I have made. With reference to financial resources, I have talked about management resources to which section 3 refers.

I've talked now about financial resources. In each instance, our investors are persons of substantial means. That material has been given to you. It may be that there are other things to go into in that regard, but you are already of the fact that each has substantial means.

In addition to that, they bring something else to the operation. There are any number of American companies now that are engaged in extensive operations in the Persian Gulf countries. Fluor, Bechtel -- I talked with one of the officers of Bechtel some months ago.

I think he said that they had over \$3 billion in contracts in Saudi Arabia. Any number of -- Dresser has a large -- Wheelabrator, oh, 50-75-100 companies that are doing a great deal of business.

Some of our investors have close contacts and are doing business with those companies. They believe that by reason of those contacts, they can bring banking business, new banking business from American companies into some of our member banks. I know some

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of those contacts. I believe also that they can.

Our investors engage in a good deal of banking business themselves. In their own matters and related matters, I believe that they can channel banking
business to the banks. It is to their interest to do
so, their interest to increase deposits. It is to their
interest to bring business to the banks and increasing
the profit of the banks.

They have said that they are prepared in the event that it is needed to increase the capitalization of those banks in which that is thought to be important, and so somebody says, "Maybe over here in conferences." Well, that's all very interesting but in what magnitude?

We've talked it out with them. They have committed themselves right a the beginning to put an additional \$12 million into increased capitalization of the bank. We don't yet know where it will be used. We don't know that it all will be used now. Some of it may be used now. Some of it can be held in reserve. But this is the kind of approach that they have.

That will conclude my brief comments on financial arrangements because, as I say, Mr. Altman, supported by Mr. Tuttle, will have a few additional comments to make. I know that he is the one who has

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been negotiating with members of the fed staff in that regard.

The next criterion that section 3C sets of the Act is future prospects. What is likely to occur in the future? And that is pretty well tied up with perhaps the last factor, convenience and needs of the community.

Now, I do not wish to be overly critical of Financial General. I am not overly critical of Financial General. I do have the feeling - and I will say this to Mr. Beddow and to Mr. Rogers who are here representing Financial General, I think Financial General is marking time.

I think that -- and part of the reason is this. At the time that the Federal Reserve Board informed General Olmstead that he would have to divest himself of stock either in this company or I think International Bank, and he chose Financial General.

Mr. Mittendorf got a group of investors

together. Now, their qualifications were that they had

some money and that they wished to invest in Financial

General stock, and they did buy the stock from General

Olmstead. Then they also moved into the management of

Financial General. And I think that there was not at

the time the feeling that they should be merely investors,

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and that you should go out and get trained commercial bankers to come in. I think the feeling was, well, they are the investors. They bought control, and they will also manage the property.

I might say that our concept out of our investors has been entirely different. They come in, hopefully would acquire control of the company but then with our assistance, get the best personnel that they can to run the company and to run it as successfully as possible.

It is our feeling, and I have learned this as a member of the board of Financial General — it is our feeling that Financial General can be more helpful to the various banks. I think that a new and stronger board can be more helpful. I think the kind of men we are getting in can bring new business into the bank. I think that they will be more aggressive. I think that they will be more progressive, and so I think that with the kind of management we can bring in with Financial General taking a more determined and a more daily interest in the operation of the banks, I think the banks will profit very substantially.

We do not have in top management of Financial General at the present time a trained experienced commercial banker, and we intend to bring in a trained

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commercial experienced banker. Prior to the time that
the Board rules on our application, we expect to be in
a position of advising you, perhaps privately, who that
individual would be. You will understand very briefly
that we offer now a prospect to a distinguished banker,
but we aren't in a position yet to offer him the actuality. So that it puts him in a position of saying, "Well,
I've got an excellent job as it is, and I can't very
well let you publicize that I'm taking the new job until
you are a little further down the road."

We have talked with a number of prominent bankers. They have led us to other bankers, and we think that the kind of man that we are talking about is the kind of man that can bring the leadership to Financial General that we believe is required.

Also in the years since the group bought Olmstead stock, no new outside capital has been brought into the operation, and in that regard, we think there, again, that we can perform in a different manner than the present group that is operating the policy.

We believe that we can bring in new deposits. We believe that with the contacts that we have, some of the banks can open either a new international department or an enlarged international department. We understand that before that should be done, we would

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want to be sure that we had the right experienced personnel to handle it. We know now that our investors are doing a good deal of business with American banks. There is no reason why that kind of business can't either be shifted or new kinds of business to the member banks of the Financial General.

So that we believe that the result in the event that we are successful, we believe the result will be a benign one. We do not see any downside to it, and we see a very substantial upside.

Let me close on a personal note. worked closely now for pretty close to three years to, His Excellency. We can't meet very often with many of the investors. They are scattered all over the Persian Gulf. His Excellency gets to London, and that's where we have had many of our meetings.

I have come to have the deepest respect for his character, for his reputation, for his honor and for his integrity. I'm proud to be an associate of his. I look forward with real anticipation to contuing to be an associate of his. He is the kind of man with whom I like to be associated. He is sophisticated. He has maintained and met every commitment, large or small, that I have had with him through these years, and I get great confidence in the feeling that NEAL R. GROSS COURT REPORTERS AND TRANSCRIBERS

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that attitude will continue on.

I won't go into any detail. I believe deeply in this country. I believe deeply in its attitude
of fairness. I believe deeply in its attitude that it
is a country of laws and not of men. I do not believe
in prejudice. I do not believe in bias. Our government does not, and with all of those factors, it seems
to me that these men bring into this operation those
qualities that our country can well receive.

I believe that this deal is good for the investors. I think it is good for Financial General. I think that it is excellent for the member banks and I am comforted that I know that it's good for our country.

That constitutes my remarks, and I thank you very much for listening. Mr. Altman now will take a few minutes and address himself to some other financial matters.

MR. ALTMAN: In the application which has been filed with the Federal Reserve, we have set forth a fair amount of financial information regarding the arrangements which bear on this acquisition. Since the time of that submission, there have been two occurences which will affect those financial arrangements.

The first one, as you are aware, there has

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 been an increase in the interest rates which are set forth in the application. Secondly, the definitive acquisition agreement which was signed with Financial General provide that the price to be paid for the shares in the tender offer is tied to a sliding scale after.

December 31, 1980.

That scale depends upon the book value of the company so that if the book value were to increase, the price paid in the tender offer would increase, and similarly, if the book value were to decrease, the price paid in the tender offer would decrease.

We are advised that the book value of the company has increased and this, therefore, affects the amount of money that will be needed for purposes of the tender offer.

I believe there are three facets to the proposed financial structure to this acquisition program which merit brief discussion. First will be the financing for the purchase of stock in the tender offer; second subject concerns the subject of any debt which is incurred and the third which Mr. Clifford in this remarks has already mentioned is the issue of adequate capitalization.

Let me take each of those in turn. The purchase of stock in the tender offer will be .

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financed through a combination of a cash contribution

Afor members of the investor group as well as from a

loan. In view of the definitive agreement, the investors
will now collectively invest an additional \$15 million
above that which is set forth in the application for
a total cash contribution of approximately \$130 million.

In addition, it is contemplated that a loan will be obtained. We have now reached tentative agreement with a European consortium bank which is an affiliate of Banc National de Paris, and it is expected that a commitment letter will be obtained shortly.

We contemplate that the loan will be increased from \$44 million approximately which is set forth in the application to approximately \$50 million.

The terms of the loan generally would be that the interest rate would be 1-1/2 over LIBOR. There are no compensating balances or other participation by Financial General or its member banks. Financial General is not liable on the loan. There is no prepayment penalty. When we obtain the commitment letter, which we believe that we will have shortly, we will, of course, submit it promptly to the Federal Reserve Board.

This brings me then to the second factor which is the service of this debt of \$50 million.

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 As we have discussed in informal meetings with the staff of the Federal Reserve, it is now contemplated that we will create a shell corporation in Delaware, which will actually obtain the loan and, in addition, will make the tender offer.

That corporation has no other functions or activities but its creation does provide tax savings to the investors and provides additional funds for the service of the debt.

In the application which has been filed, there are projections concerning the growth rate and the return on assets which are anticipated. These computations reflect the expectations of the investors regarding the performance of Financial General under new management and with the financial resources which they can bring to this organization, and those figures demonstrate that there is an ample margin with this Delaware corporation, and in particular, to service the debt which is incurred.

We have, however, been working on new projections which, in a matter of days, will be submitted again to the staff of the Federal Reserve, and these employ a conservative growth rate based on institutions of a comparable size and a more conservative return on assets. Again, these figures demonstrate that there

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 is an ample margin to service the debt of \$50 million.

Let me say that in the event our computations are wrong, either original projections or even the more conservative projections which we will be filing, we believe that we have a conclusive answer to any issue regarding the service of debt because the investors have authorized me to advise you that in the event that income from Financial General is inadequate to service the debt that the investors in that year would be prepared to pay the debt out of their personal funds.

Let me finally touch upon the issue of capitalization. As Mr. Clifford has said, investors have made a commitment to inject \$12 million into Financial General. In our analysis of this property, it would appear that the subsidiary banks are near their peer group averages in terms of capital with the exception of the Albany Bank in New York and the Valley Bank in Virginia.

It also appears that First American Bank of Maryland may need some additional capital if it engages in some of the branching and expansion and merger activities which they are presently considering.

We intend in this regard to consult with the appropriate regulatory authorities as well as with the management of the bank so that we can be assured

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that the banks do have adequate capitalization to sustain the growth that we anticipate.

In the event some of this \$12 million is not needed or immediate use by any of the member banks, it is expected that we might use those funds to reduce some of the large borrowings which Financial General presently has outstanding at a rather high rate from one of the large New York banks.

In short, we believe that following the tender offer with the injection of \$12 million, that Financial General will be a far stronger institution financially and the investors have stated that they intend to maintain the strength, the financial strength of this institution in the future through whatever means appear appropriate under the circumstances that arise. Thank you.

MR. CLIFFORD: Mr. Mannion, depending upon your wishes, His Excellency is prepared now to deliver his statement. You had mentioned that perhaps you might want to have a recess during the morning, and you advise us what your wish is.

MR.MANNION: I think now would be an appropriate time if we could break for maybe 10 to 15 minutes.

If you would come back at just about 10 after 11:00, and then we could continue with the presentations. There

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is coffee and tea outside the door. There is -- the men's rest room is just beyond --

(Whereupon, a short recess was taken.)

MR. MANNION: Mr. Clifford, I think we could resume now, and you could have the individual investors make their presentation, if you would like to proceed that way.

MR. CLIFFORD: Thank you, Mr. Mannion. We will start with His Excellency, Sheikh Kamal Adham.

He has a short statement which he will now read.

SHEIKH ADHAM: Mr. Mannion, gentlemen, my L
name is Kama Ibrahim Adham, and I am a citizen of Saudi
Arabia. I am appearing today as the lead investor
of the group which has filed an application with the
Board of Governors of the Federal Reserve System for
permission to assume control of Financial General Bankshares. Together with two other members of the group,
we currently own 18.6 percent of the common stock of
Financial General, of which my holdings are approximately
9 percent, and we have invited other associates from
the Middle East to join with us in making a tender
offer for the company. It is a practice and custom
in the Middle East to invite one's friends and associates
to participate in investment opportunities of this
kind.

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Mr. Clifford has accurately stated our overall view of this mastter. I am pleased now to add my personal comments for the record.

I believe it might be of value if I were briefly to describe my background. My initial education was received in English schools, and then I enrolled in Victoria College in Cairo, Egypt. I speak English, Arabic and Turkis, as well as some French and Italian. I studied law in Egypt for two years, but then decided to pursue a business career. I now have interests in a number of business enterprises, ranging from general contracting to manufacturing plants. Some of these businesses I own completely, and some of them are owned in partnership with other investors. My business interests are set forth in some detail in the confidential submission to the Federal Reserve Board which has been filed by my counsel.

In a recent letter from the Federal Reserve,
a question has been raised regarding the verification
of assets on my balance sheets. These submissions
were prepared by my accountants at my direction. In
light of your question, I have instructed my attorneys
to work with the staff of the Board and elaborate on
these statements through the use of bank reference letters,
review by recognized auditors, appraisals or other

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means. I am confident that that matter can be resolved to your complete satisfaction quickly.

My involvement with Financial General dates from late 1977 when I was contacted by a friend, Mr. Hassan Yassin, who worked in Washington, D.C. in the Saudi Arabian Embassy. Mr. Yassin advised me that the stock had become available for purchase in Financial General and that this company might provide an attractive investment opportunity. I was interested in finding appropriate investments in the United States, and I contacted the Bank of Credit and Commerce International in London, with whom I had a longstanding banking and investment banking relationship.

I asked BCCI to evaluate this property

for me and advise me as to its suitability as an investment. I was told that Financial General appeared to

be financially sound, and I requested BCCI to purchase

less than 5 percent of the common stock for my account.

I had understood it was my right to keep my business

affairs in the United States confidential if my purchases

of public companies were less than 5 percent.

Subsequently, I learned that BCCI also discussed Financial General as a possible investment opportunity with various other persons who had been interested in making investments in the United States. BCCI

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recommended that three of the bank's clients, Messrs.

Faisal Saud al-Fulaij, Sultan Bin Zaid al-Nahyan, and

Abdullah Darwaish on behalf of Mohammed Bid Zaid al

Nahyan, who is a minor, each acquire an equity position

in Financial General. During December 1977 and January

'78, each of Messrs, Falaij, Darwaish, and Sheikh Sultan

instructed BCCI to purchase shares of Financial General

for their accounts. Sheikh Sultan later determined

to sell his holdings and, with the express approval

of the Securities and Exchange Commission, I purchased

his entire block in September 1978.

Certain questions have been addressed to

us by the Federal Reserve and the State of Virginia

regarding comtemplated relationships between BCCI and

Financial General. This inquiry is easily answered.

BCCI has been a banker for certain of the Investors

and, when requested, will provide investment advice

to its customers. I personally have maintained accounts

in the bank and have utilized BCCI's investment banking

services from time to time. There is, however, no

understanding or arrangement regarding any future relationship or proposed transactions between Financial

General and BCCI. In this regard BCCI is considered

an unrelated financial institutions and whatever relationships are developed between Financial General and BCCI

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 in the future, if any, are matters to be decided by the new management of Financial General based upon that institution's best interests.

In March, 1978, the Securities and Exchange Commission commenced an investigation of the situation at Financial General, and among other things, reviewed the purchases of Financial General stock by me and the other named investors. Questions were raised whether the investors might technically be considered a "group" under Federal securities laws and therefore be subject to certain reporting requirements. Up until this time, I had no idea that I might be considered part of a "group" or that I might have any legal obligations to file any reports with the Securities and Exchange Commission.

I retained counsel to advise me in this
matter and rather than contest the point, I determined
voluntarily to sign a Consent Agreement with the Securities and Exchange Commission and file public reports
regarding my Financial General holdings. Since that
time I have continued to rely upon the advice of my
lawyers regarding compliance with the laws and regulations
in the United States, and there have been no other
questions raised about my business activities.

At the time of the Securities and Exchange

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Commission investigation, it was clear that the management of Financial General was strongly opposed to the investment in the Company by me and the other Middle Eastern investors. Under the circumstances, I concluded that I must either sell my holdings or make a tender offer for all the common stock of the company. I chose the latter course, a proposal which was completely agreeable to the Securities and Exchange Commission and reflected in the Consent Agreements which were signed.

Management for Financial General determined to try to enjoin the tender offer and, when that failed, they continued their opposition to our investment.

During this period, however, we came to understand management's concerns, and they, in turn, came to know and understand us. Thus, rather than the opposition by the company continuing to escalate, it gradually started to subside. Following the last annual meeting of the shareholders, management and we agreed that it would be in the best interests of all parties to negotiate an appropriate settlement of the dispute.

On July 25, 1980, a Definitive Acquisition Agreement was signed with the company which contemplates the making of a tender offer at an agreed-upon price subject to the receipt of necessary bank regulatory approvals.

Three representatives of our group, Mr.

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Clifford, former Senator Symington, and Mr. Elwood
Quesada were elected to the Board. Since that time,
our representatives have worked closely and harmoniously
with management in a common effort to have the tender
offer made.

I am aware that the staff of the Federal Reserve has generally questioned what managerial philosophy and approach we envision for Financial General and its subsidiaries if our tender offer is successful. Let me be clear on this point. The other members of the investor group and I have no intention of operating Financial General ourselves, setting policy for the company, or sitting on its Board of Direcxtors. We consider this company to offer an attractive investment opportunity, but it is regarded entirely as a passive investment. You, of course, understand that we reside thousands of miles from here, and none of us are professional bank managers by occupation. Accordingly, our major objective will be to ensure that well-qualified Americans be selected to serve on Financial General's Board, and that an outstanding, professional commercial banker beretained to serve as the Chief Executive Officer of the Company.

To achieve this objective, we have retained Mr. Clifford and Mr. Altman who are authorized to handle

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all aspects of this acquisition. And, as further evidence of our intention, we have entered into a voting agreement with Senator Symington, who has agreed to act as our voting representative for a period of five years with the power to vote at least 60 percent of the stock of Credit and Commerce American Holdings, N.V. ("CCAH"). We fully expect that Mr. Clifford and Mr. Altman, together with Senator Symington, will find suitable candidates to serve on the Board of Directors of Financial General and will be able to locate the right person to become Chief Executive Officer of the company. We have been assured by them that they will continue to remain active in this matter after the acquisition is completed and will supervise and monitor this investment for us in the future so that our financial interests are fully protected.

Certainly if any investor has an idea of a suggestion regarding this property, it would be communicate to Messrs. Clifford, Altman or Senator Symington, but the ultimate management of the company will and must rest with the Board of Directors and the professional bank managers who are employed.

I am advised that there is a tradition in Financial General of permitting the member banks to operate autonomously. While the future operation of

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 Financial General must be left to the judgment of its new management, the investors have no desire to change this practice. Nor is there any intention to seek to replace the current management of Board members of the subsidiary banks. Indeed, an invitation has been extended to them to stay. I believe that a bank holding company should be a source of financial strength to its banks. I would nope that the new management at Financial General would find ways in which they could be of assistance to the subsidiary banks and help them provide better service to the communities in which they are located.

Financial General has a unique franchise. With the proper management and with strong financial backing, we believe it has great potential to become a more important and more competitive financial institution. Our basic objective is to participate through our stock holdings in the development of a well-capitalized, sound institution which will appreciate in value over the years.

The investors' financial resources and business relationships can be of substantial value to the member banks of Financial General in their future development.

The other investors and I presently maintain very large deposits with various banks in other parts of the world.

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Those funds could become available for deposit in certain of Financial General's banks which are in a position to accept them.

Further, there are numerous American companies which do a substantial volume of construction and other business in the Middle East and which rely for their banking needs on various European and other banks. I believe that we might be able to encourage som eof these businesses to direct some of their banking to Financial General's member banks. Moreover, given the developing trade and economic intercourse between the United States and the Persian Gulf countries, I believe that some of the Financial General banks which are located in major metropolitan areas might benefit by establishing an international banking department which could be staffed to take advantage of business relatinships of the investors.

These developments would require time. they would have to be evaluated by the new management of Financial General and the management of the subsidiary banks to determine their merit. They appear to offer important new opportunities for these banks.

We understand that the growth which we envision for Financial General will require adequate capitalization to sustain it. We have made a commitment to inject

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\$12 million of new capital into Financial General. To the extent that additional capital is needed in 2 thefuture, we would be prepared to consult with the 3 Board and management of Financial General and determine the best manner in which it should be raised. While 5 I think it would be premature to determine exactly how that should be done at this time, one acceptable 7 course might be to finance it out of earnings by halting 8 temporarily any payment of dividends to CCAH. Alter-9 natively, it might be appropriate to have a new stock 10 offering. The investors are persons of substantial 11 means and they should be able to solve this problem 12 readily should it arise. 13

In closing, let me say on behalf of all the investors that we are grateful for the opportunity to appear before you, the Comptroller and the state banking departments which are involved, and state on the record our plans and intentions regarding the proposed acquisition. It is my conviction that the program we have outlined will result in Financial General becoming a stronger, better capitalized holding company that will be able to provide its subsidiary banks with the capital resources and managerial assistance needed to compete in today's markets and offer appropriate banking services to the public.

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Adham.

 Thank you.

MR. MANNION: Thank you very much, Sheikh

MR. CLIFFORD: Mr. Mannion, our next investor is Mr. Faisal Saud Al-Fulaij of Kuwait. Mr. Fulaij.

MR. FULAIJ: My name is Faisal Saud al-Fulaij, and I am a citizen of Kuwait. I am a graduate of the University of Cairo where I studied business administration. After college I worked as the Administrative Manager of the municipality of Kuwait. In 1964 I became Chairman of Kuwait Airways, a post I resigned in 1977. I also was elected President of the Kuwait Sanitary Wares Company which manufactured plumbing and ceramic equipment. I have been involved in KIFCO and have had business interests in a real estate firm and a travel agency. More recently I became engaged in the commercial import of commodities through a firm called Arab Interwings Company.

I became interested in 1977 in the possibility of making investments abroad, particularly in the United States. The United States was an attractive area in which to invest because it is a politically stable country and enjoys a strong economy. I, therefore, instructed certain of my advisors to locate appropriate

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investments in the United States and bring them to my attention. An inquiry in this regard was made on my behalf at the Bank of Credit and Commerce International. I was informed that stock was available in a company called Financial General Bankshares, a banking operation that appeared to offer potential for growth. I instructed my representatives to arrange through BCCI to purchase the stock for me.

Following my purchase of this stock, the management of Financial General instituted a lawsuit against me and other investors from the Middle East who I learned also purchased stock in the company. During that period in early 1978, the Securities and Exchange Commission commenced an investigation of the matter. The Commission was concerned with whether the Middle Eastern investors were a "group" with public diclosure obligations. I retained counsel in the United States and decided, in consultation with them, to report my investment in Financial General and avoid unnecessary litigation.

In order to protect the financial investment which I had already made in Financial General, I agreed, together with the other Middle Eastern investors, to make a tender offer for all the common stock of the company.

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 I am gratified to say that over the last two years we have been able to resolve our differences with the management of Financial General and last summer signed an Agreement to purchase the Company. It is my hope that we will now obtain the necessary approvals from the Federal Reserve and the other states which are involved.

I should like to confirm to you those facts which Mr. Clifford and Sheikh Adham have explained.

Financial General is considered by me to be an investment, not an organization which I intend to manage personally.

I have complete confidence in the judgment of my attorneys and Senator Symington, my voting representative, to select a Board of Directors and an experienced Chief Executive Officer who will ensure the future growth and development of this company.

Thank you.

MR. MANNION: Thank you very much, Mr. Fulaij.

MR. CLIFFORD: Now, Mr. Mannion, our next investor is Mr. Abdul Raouf Khalil.

MR. KHALIL: Mr. Mannion, gentlemen, my name is Abdul Raouf Hassan Khalil. I wish to express my appreciation to the staff of the Federal Reserve Board for this opportunity to appear and explain my interest in investing in Financial General Bankshares,

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Incorporation.

I was born in Saudi Arabia in 1937 where
I continue to reside. My career has been devoted to
business and I presently hold interests in real estate,
mechanical and electrical maintenance projects, and
commodities. In addition, I have been involved in
some business ventures with American and British manufacturers for the installation of electronic and computer
equipment in Saudi Arabia.

Despite the success of these projects, I have been interested in diversifying my business holdings and have long been attracted to potential investment opportunities in the United States. This is a politically stable country where investments are secure and can appreciate in value over a period of years.

My interest in Financial General stems from my friendship with Sheikh Kamal Adham whom I have known for many years. I have always had the highest respect and regard for Sheikh Kamal Adham, both as a person and as a businessman. Laset summer I learned that there might be an opportunity to participate with Sheikh Adham in the acquisition of Financial General here in the United States. I informed him that I was interested in this investment and would be delighted to participate with him.

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 As Mr. Clifford and Sheikh Adham have advised you, I have no intention of taking any active part in operating this property, setting banking policies, or becoming a member of Financial General's Board of Directors. Rather, it is my desire that the holding company and the banks be well managed by qualified professionals. In this way my financial investment can be protected. Moreover, this approach together with the financial resources of the investor group will enable the company to realize its potential of becoming a strong, competitive banking operation.

Thank you.

MR. MANNION: Thank you very much, Mr. Khalil.

MR. CLIFFORD: Mr. Mannion, our fourth and
last investor is Mr. Sayed El Gohary of Saudi Arabia.

Mr. Gohary?

MR. GOHARY: Mr. Mannion, gentlemen, my name is El Sayed El Sayed El Gohary, and I am pleased to appear here this morning and add to the record my comments regarding the proposed acquisition of Financial General Bankshares. I was born in Egypt in 1931 and in 1952 I received a B.A. degree in commerce and finance from the Ain Shams University in Cairo. In 1958 I was certified by the Egyptian authorities as an authorized accountant and auditor. Since 1968,

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however, I have pursued personal business interests and among other things, I am presently a director of several Middle Eastern companies, including the Middle East Glass Company and the Mokkatam Hotel Company.

I have been a close friend and advisor to

His Excellency Sheikh Kamal Adham for many years. As

a result of numerous conversations with him during

the last three years, I have been aware of Sheikh Adham's

investment in Financial General and the proposed tender

offer. In August, 1980, following the execution of

the DEfinitive Acquisition Agreement, Sheikh Adham

informed other friends of his willingness to allow

them to join with him as an investor in Financial General
and I asked whether I might participate. Sheikh Adham

readily agreed to my becoming a shareholder.

As Sheikh Adham has made clear about the intentions of our investor group, I do not intend to be involved in the affairs of Financial General personally. Instead, I shall rely on the expertise and judgment of the new management team and the new Board. The persons to manage this operation are to be selected in consultation with our U.S. attorneys in whom we have complete confidence. I believe that as a result of this acquisition, Financial General will become a more successful and more competitive banking operation

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which is able to offer new and better services to the public in those communities where its member banks are located.

Thank you.

MR. MANNION: Thank you very much, Mr. Gohary.

MR. CLIFFORD: Mr. Mannion, that concludes the presentation by the applicants. Thank you.

MR. MANNION: Mr. Clifford, on behalf of the Board and its staff, I want to thank you and the individual investors for coming here this morning.

I know it has been difficult to arrange schedules, and you had to travel many miles to be here. We appreciate your coming and making yourself available for questioning.

What I would like to do is ask a couple of general questions that I have now, and then break for lunch, and then we will come back with some more detailed questions, and I will outline at this time the general structure that we will follow, what areas that we will be dealing with this afternoon.

First of all, could someone on behalf of the applicants state what the current status of the SEC investigation or proceeding is?

MR. CLIFFORD: I think we will follow the practice, if I think I know something about it, I

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will try and then if any one of my collegues has something to add, they will add.

matter is dismissed, and all litigation between the parties was disposed of at the time that we entered into the agreement between Financial General and these investors.

MR. ALTMAN: I will just add the comment that we had a stipulation with the Securities and Exchange Commission to extend the time for making the tender offer to and including December 31, 1981. That stipulation has been reduced to writing, and has been entered by the U.S. District Court here in Washington, D.C.

MR. MANNION: So as you understand it, there is no ongoing investigation now by the SEC or any other federal agency with respect to the original purchase?

MR. CLIFFORD: That is correct.

MR. MANNION: By investors of Financial General?

MR. CLIFFORD: That is a correct statement.

MR. MANNION: Could you explain a little bit more about the voting trust agreement? The investors have indicated that they will not be participating in the management of Financial General, and they have

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designated Mr. Symington as the voting trustee. I note Mr. Symington is 78 years old, and I would like to know what contingencies may be allowed for him in that regard.

MR. CLIFFORD: I will start on it. Here is the way that originated. When we were working with our investors, we wanted to be sure that we would make an impressive case that our investors were not going to make the decisions and operate Financial General.

You have heard the position taken by these men. We wanted to fortify that, so we suggested that they enter into a voting arrangement with Senator Symington, and that for five years, Senator Symington would vote at least 60 percent of the stock. It was really not a voting trust. It was just a voting arrangement between them and Senator Symington.

And we brought that to the attention of
His Excellency and other investors, and they were prepared to sign that instrument. At that time, we submitted it to our banking law advisor, Mr. Tuttle, and
he said that would create a problem because if you
entered into it in that manner, that would transfer
control to Senator Symington away from the investors, and
it would be Senator Symington who would be coming to
the "Fed" and asking for approval to become a bank

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holding company. And we understood that.

So we changed the language some, and the language now reads and it has been entered into, that the investors name as their voting representative Senator Symington, but that they do have the right, if they choose, to give him advice and directions on the voting. So that that does not change their actually becoming a bank holding company and being in control. Maybe these men have something to add.

MR. ALTMAN: Well, I would just add in response to your inquiry regarding successors, that there is a specific provision in the voting agreement which designates first that Mr. Clifford shall be the successor in the event that Senator Symington is unable or unwilling to serve, and in the event that Mr. Clifford either resigns or becomes unable to serve, there is provision for further successors, either to be nominated by the Board of Directors of Financial General in the event there have been the consummation of the tender offer or alternatively, the successor would be nominated by me.

MR. MANNION: What is it that is special about voting 60 percent? Does that mean the individual investors will be voting the other shares or will Senator Symington be --

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 MR. CLIFFORD: There was no particular magic about that. In our original concept of it, when we wanted to be sure that we made that point clear to the Board and to the various states, we just selected 60 percent rather than 51 because it seemed easier and we just chose that. And we are the ones who presented it to the investors and said, "We recommend that you men agree to this."

And they did agree to it. So we just arbitrarily selected 60 percent.

MR. MANNION: The investors will then vote the other shres?

MR. CLIFFORD: Yes.

MR.ALTMAN: Well, in consultation with the other investors, we think that in practice, Senator Symington might likely vote 100 percent of the stock. The agreement was drawn only to provide for 60 percent because there might be certain circumstances which could preclude an investor from giving Symington full voting power.

For example, Mr. Darwaish was a representative of a minor, and we felt he might not be able to turn over his fudiciary resonsibilities to another person. That now appears that it will not present a problem, but the 60 percent figure was chosen to

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years?

make it clear the Symington would have control, but to enable us to be flexible in the event there were any problems which arose with any of the shareholders.

It does clearly give the Senator control of the CCAH.

MR. MANNION: What happens after the five

MR. CLIFFORD: Then it is gone. All it was was to constitute a bridge so that it would show what the intention of the parties is at the time so that at the end of five years, we felt there was no further need for it.

But the takeover would have been concluded by that time, that everybody would have understood it; that we would have developed a routine type of operation and it would not affect it.

The fact is, it is not of very much significance, the 60 percent voting arrangement is not of any particular significance when we added the language which we felt was necessary on advice of counsel, that Senator Symington was in such a position that he would receive directions or instructions from the shareholders.

MR. MANNION: I have one question to clarify the various statements. As I read the statements -- and I just want to make sure that I'm correct, that

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 Sheikh Adham and Mr. Fulaij were originally interested in this investment by Bank of Credit and Commerce, BCCI.

MR. ALTMAN: That is not correct?

MR. MANNION: No?

MR. ALTMAN: I believe that Sheikh Adham's testimony was that he was advised of this by a friend who worked in the Saudi Arabian Embassy, Mr. Yassim. And BCCI's involvement was merely when Sheikh Adham asked them to evaluate this property and give them their opinion as to its suitability as an investment.

In that same vein, Mr. Fulaij has said that he was seeking to make investments abroad, particularly in the United States, and asked for his representatives to locate some of them and advise him of their availability.

They had contacted BCCI in that effort, and BCCI brought to their attention the fact that there was stock available in Financial General.

MR.MANNION: The point that I really wanted to clarify, is Mr. Sheikh Adham now the leader of the investor group? Are you the person that has brought together all of the other investors?

SHEIKH ADHAM: No.

MR. MANNION: No?

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of my friends from my part of the world and I guess

some friends from Kuwait invited some friends from

Ruwait and some of their friends. But I am called the lead because perhaps I now own more shares than

lunch now. And I would like to come back at 1:30.

and discussing what has been said before it. And we

at 12:00 o'clock noon, April 23, 1981, to be reconvened

SHEIKH ADHAM: Not at all. I invited some

MR. MANNION: Well, why don't we break for

The Board staff is going to be getting together

(Whereupon, the hearing was hereby adjourned

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the others.

will just readjourn at 1:30.

at 1:30 a.m., this same day.)

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AFTERNOON SESSION

(1:38 p.m.)

MR. MANNION: Okay, we can reconvene now. What I would like to do is to set forth the general framework that we will follow in asking questions this afternoon. There are four general areas that we will be dealing with. The first one is the management of the holding companies that are involved as well as questions dealing with the personal history of the investors and their related interests. The second is the convenience and needs and the operations of the bank holding companies and the banking subsidiaries. The third area will be the financial aspects of the proposal and debt retirement plans that have been submitted, and then the fourth area would be the ongoing and supervisory and regulatory concerns that the Federal Reserve Board might have with respect to dealing with foreign investors and how the Federal Reserve will supervise this organization if the Board approves the holding company formations.

Backing up to the first area, the management and personal histories of the investors, we are still a little bit uncertain as to how the group came about. In Sheikh Adham's written and oral presentation this morning, he indicated how he became interested in

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Financial General, and then went to BCCI and had them do an analysis of the organization. Then we understand that Mr. Fulaij, on his own, was looking for investments in the United States, and he was advised by BCCI to get involved in or suggested that he might want to get involved in Financial General.

Was Sheikh Adham aware that Mr. Fulaij was getting involved in Financial General or when Mr. Fulaij made his investment, was he aware that Sheikh Adham was involved in it?

SHEIKH ADHAM: I don't know what -- I certainly don't know.

MR. FULAIJ: The same.

MR. MANNION: So you were told that Financial General was a good investment by BCCI, and on that basis, is it just a coincidence that BCCI is first asked by Sheikh Adham to do an investigation or analysis of Financial General, and then apparently after doing that, they then gave advice to several of their investment clients to be involved in Financial General?

MR. FULAIJ: (Nods in the affirmative.)

SHEIKH ADHAM: It is very possible. Such things happens in our parts of the world where if I have an interest in investment, I usually tell my friends that we have an investment like that. My bank suggested

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this to me. "Why don't you buy this share or buy gold or buy this?" And the word spread. It's so simple.

But as far as Mr. Fulaij and myself, I think we haven't met for the last 10 years or more so we don't even have immediate contacts with each other so it is just purely a coincidence, in my opinion.

I don't see really that other than perhaps this was suggested to him on the merits of my desire to buy it and investigation that followed that, that this is a good share. I think so.

MR. MANNION: But it could have occurred that BCCI, giving you investment advice, and you following that advice and then it, in turn, going out and offering advice to others, that might conflict with your interests? That is, in the sense of, you know, if they are telling other people to buy Financial General at the same time that you are buying Financial General, is there any obligation on their part to --

SHEIKH ADHAM: I think there is a share for everybody in these deals, really, and my practice personally in most of my projects, I like to have as many of my friends with me, if I have a chance to tell them.

But in this case, I think that it is not me that told Mr. Fulaij. He was advised by BCCI.

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MR.ALTMAN: In many respects, Mr. Mannion, this is not very different than a situation where Merrill Lynch might give independent investment advice about a security to two people, and each of them independently determines that they will purchase that security.

In this case, the persons who did purchase the stock have indicated that they have been interested in investments abroad, particularly in the United States for reasons which were explained this morning, and when Mr. Fulaij asked for some potential investments to be brought to his attention, this was one that BCCI had become aware of. They had investigated the matter at the request of Sheikh Adham independently.

SHEIKH ADHAM: May I?

MR. MANNION: Certainly.

SHEIRH ADHAM: I think that from the line of questions, it appears that there is doubt that there is somebody or BCCI is behind all of this deal. I would like to assure you that each one on his own rights will not accept in any way to be a cover for somebody else.

Perhaps I myself with some time given, I could venture to buy this whole operation myself but the fact that, as I said before, that we would like to have more people from different areas, more friends

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with us to make this venture successful, I think we really don't need anybody behind us. We don't need anybody to use us, to be a cover for them. We are doing it for ourselves. We are committing a lot of money in that, and we think that this project has a lot of merits, and that is why we would like to have —to make all this investment in the hands of professional people, American people, abide by the American laws, follow the American laws, and it's in the hands, as you see, in the good hands of Mr. Clifford and Senator Symington.

This is really what I can say about this.

I would like you to get this doubt completely out of your mind.

MR. MANNION: The reason for the line of questioning is to try to determine what the relationship between the individual investors is, and there has been a common thread, at least with respect to some of the investors -- that being BCCI.

It is represented in the application that BCCI is no longer involved in this particular proposal although BCCI may continue offering advice to individual investors.

Could you -- Sheikh Adham, could you identify of the 14 investors that are listed in the application

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those that came into the deal because of your involvement? SHEIKH ADHAM: All those who are from Saudi 2 Arabia are my suggestion, and I understand that from 3 Kuwait, probably Faisal has some friends and from Abu Dhabi and Emergits, the rulers there have so many 5 friends there that they can invite. MR. MANNION: But of the 14, how many did you bring into this deal? SHEIKH ADHAM: All those from Saudi Arabia. MR. MANNION: Okay. SHEIKH ADHAM: Not many, really. Only three. MR. MANNION: Okay, so those are --MR. ALTMAN: Those would be Mr. Khalil, Mr. Gohary and His Excellency. MR. MANNION: That is the -- I'm sorry, which one is that? Is that the --MR. ALTMAN: Those are the ones --MR. MANNION: Okay. SHEIKH ADHAM: The three present. MR. MANNION: Okay, fine. SHEIKH ADHAM: These are my --MR. MANNION: And then Mr. Fulaij, how -what are the investors that you have -- all right yourself? MR. ALTMAN: He is saying that Mr. Khabazard **NEAL R. GROSS**

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and the Gulf Investment and Real Estate Company, and the real estate development company.

MR. TUTTLE: He is referring, I believe, to the --

MR. ALTMAN: Yes, I can't pronounce the name. Mr. Fulaij has said that he invited those investors who are listed in the application from Kuwait to participate with him and the others in this acquisition.

MR. MANNION: How many of them are there?

MR. TUTTLE: In addition to himself, there

are three -- 12, 13 and 14 on your table are the ones

that he --

MR. ALTMAN: 11, 12 and 13 on your table.

MR. MANNION: And 9, right?

MR. ALTMAN: That's correct. Nine is Mr.

Fulaij himself.

MR. MANNION: Who would have been responsible for interesting Darwaish and the Abu Dhabi Investment Authority, who are two of the larger proposed shareholders in the organization?

MR. ALTMAN: Mr. Mannion, Mr. Darwaish has been in this from the beginning, as is true of Mr. Fulaij. He was seeking investments for Sheikh Mohammed who is a minor. Mr. Darwaish manages Sheikh Mohammed's

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financial affairs, and he purchased his stock originally
in December 1977, and January 1978. At that time,
there was another member of the royal family from the
United Arab Emirat, Sheikh Sultan. He sold his holdings
in 1978, in the fall of that year, as Sheikh Adham
has explained to you earlier this morning and Mr. Darwaish
invited the other investors here who are from the Emirates

MR. MANNION: Do you know who would have advised Mr. Darwaish to make the investment? How would he have heard about the investment?

MR. ALTMAN: Mr. Darwaish, again, who had utilized BCCI for investment advice received a recommendation that Financial General offered an attractive investment and they arranged the purchase of the shares for him at his direction.

MR. MANNION: And the Abu Dhabi Investment Authority, who --

MR. ALTMAN: They had not been -- the Abu

Dhabi Investment Authority had not been involved in

this acquisition until last summer when the Definitive

Agreement was executed in view of the changed economic

picture at that time.

It was felt that there was a need to bring other investors in and Mr. Darwaish arranged for certain of the other investors from his part of the Middle

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East in the Emirates.

MR. MANNION: So he would have been responsible for the Abu Dhabi Investment and then is that Crescent Holding? Would he have --

MR. ALTMAN: Yes.

MR. MANNION: And then the next --

MR. ALTMAN: All the others are from the

Emirate.

MR. MANNION: Okay. Now, this is somewhat difficult to put in the form of a question but during the course of these proposals being before the Federal Reserve Board, it was indicated to the Board staff that Sheikh Adham was the leading investor and was particularly important in bringing some of these individuals together, and was maybe the lead spokesman for the group.

Now, during the opening morning session,

Sheikh Adham indicates that while he is the leading investor, you really don't speak for the group or would you care to amplify on what is it that links the group together? What is it that keeps the group together?

Is the group free to break up at any particular time?

If somebody wants to sell out of the interest, would they be free to do so or do they have the right of first refusal to the other investors?

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MR. CLIFFORD: I'll take a cut and you finish up. I don't believe there is any agreement of that kind. I'v not heard about it. Maybe Bob has. He has been over there more than I.

I think it is a group of individuals operating as individuals. I've never heard that there are agreements for first refusal or anything of that kind. It is entirely possible, I would think, that if someone wished to sell, that he can sell.

He might choose to offer it to the others, knowing that they were interested in it. I know when one investor wanted to get out, I think he offered his stock to His Excellency to see if he wanted it, and he did.

I think one reason why that we have always felt that His Excellency was kind of the leader, after he got in the picture with the standing that he has in the area, then I think the argument was used to others, Sheikh Kamal Adham is already in this. He's gone through this. He thinks it is a good investment. He has made a substantial adjustment. I think that was perhaps of value to others coming into it.

SHEIKH ADHAM: I think I triggered the whole thing really by electing to buy these shares and asking my bank to look into this, so I am really the anchor

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man.

MR. ALTMAN: But it is general --

MR. RODRIGUEZ: Perhaps I'm putting the wrong interpretation on the relationship, Sheikh Adham, that you've had with BCCI, but it just seems rather peculiar that you would bring personal investment to your bank and ask your banker to review them, and then unbeknownst to you, later, your banker would recommend that same investment that you brought to them up to others. It just seems rather peculiar circumstances.

SHEIKH ADHAM: I don't see where it hurts

me, really. The question -- I don't see where it hurts

me if they -- if I have an interest an in investment,

and they verify it's good, my news that I receive from

my friends that told me that shares are good and they

verified that is good. If they tell somebody else,

some of their clients, I don't know that there is anything

that would harm me in this case, really.

MR. CLIFFORD: This goes on every day in the United States. A brokerage firm will choose to make a study of an industry, and they will find that they think the industry has real possibility.

Then within the industry, they reduce their damps. The findings down to possibly one or two countries. And I'm on the mailing list -- why, I do not know -- but

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I am on the mailing list of maybe four or five investment banking houses, and I will get a letter from Morgan Stanley saying, "This particular stock has been very carefully investigated. We recommend it for purchase."

Now, I know I'm not the only one that gets that letter. There may be 1000 people who get that letter, and it never occurred to me that because it was being recommended to someone else, that that constituted a disservice to me.

I think that it is this general type of conduct that we are witnessing here.

MR. RODRIGUEZ: Perhaps the distinction
between what you outlined and what I understand to
be the facts here, however, would be that instead of
the brokerage house independently on its own selecting
a stock for review and then putting out a general circular
concerning that review, that what we have here instead
is an individual customer of the brokerage house coming
forward with a request for an independent review for
the individual customer's own use.

And it seems to me that that's somewhat different.

MR. CLIFFORD: I do that all the time. I'll be in a matter and I will learn something about some possible development that's going to take place that

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might interest me in a security, and I have a broker in New York. I guess I've used for 30 years.

And I call him as an individual, and I say, "I've gotten some information about XYZ, Incorporated, that I find really quite interesting. Would you look into that for me, and give me your reaction?"

I guess I've done it 500 times in my life.

I've known any number of other people who do it. They
hear about a stock. I'm not ready to purchase it on
what I know about it. I'd like my broker -- that's
his job -- to conduct a study in depth of that particular
stock.

He comes back and he says, "Whatever you've heard is not justified by what we find." On the other hand, he says, "I think it's very good." And when he has made a study, and he has concluded that the stock is a good buy, based upon my request, I have no doubt at all but what he refers it to others and says, "We've conducted a study."

It doesn't make too much difference who triggers the inquiry, whether I trigger the inquiry or whether it's triggered by the brokerage house itself. The inquiry is triggered.

SHEIRH ADHAM: I think that if -- had it been handled normally, I would have had my shares less

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than five percent and they in Abu Dhabi would have had their shares and Mr. Fulaij would have his shares, and nobody would have even questioned this. But the fact that somehow the bank, Financial General, linked us together made all this appear to be rather dubious or that there is something behind it.

It could have been an ordinary investment that I made or Sheikh Sultan and everybody would have forgotten about us. Probably I would have sold it when the shares got higher. The implications that came afterwards made it appear that there is something wrong with it.

MR. TUTTLE: Jack, your point, I think, bears more weight had he -- had His Excellency -- if His Excellency intended to take over the entire institution. Both he and Mr. Fulaij have stated that originally they were buying shares as an investment like anyone else buys a small minority interest as an investment.

It is only after Financial General commenced the litigation that they considered the possibility of increasing their shareholding. But originally I don't see that there is any conflict when you're talking about a minor investment.

SHEIKH ADHAM: There have been many similar opportunities that we pass to our friends, tell them

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"I am going to buy this. Why don't -- it's a good share." It could have been sold afterwards, but the fact that they thought that we are a group and that we are trying to do something which we are doing now, this really got us together.

I don't even know Mr. Darwaish, and Skeikh Fasil is -- I know of him. I met him once in years. But suddenly we find ourselves forced in one group, and I'm the leader.

MR. TUTTLE: Could you amplify for us just how it developed over time that you decided, well, if they are going to call us a group, then we'll act like a group. How did that develop, and when did you make the decision that, "We will act like a group."

SHEIKH: I'm not very good at dates, but

I think through the advice of our attorneys, we felt

that we are rather accused of something that is not

true, and it is then when we left everything in their

hands and not knowing the technicalities of how things

are run in the United States, we really referred everything to Mr. Clifford to guide us along with him.

I think if you don't mind, we can refer that to Mr. Clifford.

MR. CLIFFORD: I referred to it briefly this morning. The suit was brought. The fight was

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on, and we were faced with the situation, should we contest the SEC suit in which they were alleged to be a group?

There was a very real question in our minds as to whether they were a group. It's a factual question and a legal question to a certain extent, but it occurred to us as we talked it out — we talked it out with our New York counsel, Mr. Fogelson and his firm. And we discussed it and said, "Now, we can go ahead and contest the action of the SEC. We can have a long and lengthy and expensive hearing, and then maybe we will prevail. Maybe they'll hold it under the law and under the fact this is not a group."

Well, what's happened then? We haven't gotten anywhere. It's only a question of should they go in and file a 13d and explain what holdings they have or go through what seemed to us to be a useless type of period of litigation, so we just said after we talked it all out, let's go in and file a 13d and have a consent order, which we did.

And it cleaned that up, got it over with and then we were in position to get into the struggle with Financial General directly.

MR. ALTMAN: And if I could just amplify on those remarks, these investors at that point were

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23 24 25 faced with the situation that they held a minority interest in the company where management had evidenced real hostility to their presence, and the investment that they had made was not an inconsiderable one running into millions of dollars.

A business judgment was made that they could not remain in that position. It was an untenable position and they could either then sell their holdings so that they would not be in that minority position, or alternatively, they could determine to purchase all the stock in the company.

The matter was discussed with the investors and counsel as well as with the Securities and Exchange Commission, and it was agreed that they would make a tender offer for the company, and that was when the group really began.

MR. HUFFMAN: On whose advice did you decide to go ahead with the acquisition of the entire \$100 percent of the company as opposed to possibly selling off your existing 18 percent?

MR. ALTMAN: That was done in consultation with counsel; specifically Mr. Clifford and I, Mr. Fogelson and his partner, Mr. Lipton. We discussed that with the investors and the decision was reached. It was, as I said, discussed at some length also with

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the Securities and Exchange Commission, and was expressly reflected in those agreements which were signed.

MR. MANNION: There is nothing as I understand it that keeps the individual investors committed to stay in the bank holding company as investors?

MR. CLIFFORD: I know of nothing. Do you?

MR. ALTMAN: Nothing than their intention which they have said is a long-term investment for them but there is nothing that forbids them from selling, subject to any regulatory approvals that might be needed, et cetera.

MR. MANNION: In that regard, could you employ again on the voting arrangement. If an individual investor decides to sell his shares, presumably those shares are then not subject to Senator Symington's vote --

MR. ALTMAN: That is correct.

MR. MANNION: How strongly is Senator Symington obligated to follow the direction of the individual investors and how he votes the shares?

MR. CLIFFORD: Go ahead.

MR. ALTMAN: The question is one that occurs because of the bank regulatory laws. That is, the change in Bank Control Act. That particular act, we have learned, would create very real problems if

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 in voting the shares. It might raise questions when the agreement expired, and in order to avoid any legal problems in that regard, there was language inserted in the agreement which gives the investors the right to advise the Senator how the stock should be voted.

That was done, as I say, to avoid a legal problem.

However, in practice, I think the investors will confirm to you that they do not anticipate advising the Senator how to vote. The purpose of that vote is merely to elect the Board of Directors. As they have said this morning at some length, they look to Mr. Clifford and the Senator to find people to sit on the Board, and they do not expect to be telling the Senator who he should elect to the Board. They look to him and rely on him and his judgment for that decision.

SHEIKH ADHAM: To create the American machinery, the professional machinery that would run the bank and investment because they are more aware of the right people that they can choose than ourselves, really.

MR. MANNION: You do not envision Senator

Symington being subject to opposing pressures by the

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individual investors whereby 50 percent would ask that he vote one way and 50 percent ask that he vote another way or some other proportional holding?

MR. CLIFFORD: It is inconceivable to me because of the understanding and even commitment that we have with the shareholders as to the manner in which they intend to treat the investment.

They have informed us. We have proceeded on that assumption. They have abided by it. But they remain the passive investor, and that we will continue on with our task, replacing certain persons on the Board. There are some men on the Financial General Board that I think would be valuable, if we were to persuade them to stay, and I think some of them would be glad to stay.

I think that also we would need two or three or four of them stay during the period of transition from the old management to the new management.

But our positive understanding with our investors is that they are not going to concern themselves with the operation of Financial General or the member banks, and we are proceeding on that assumption.

MR. MANNION: In that assumption, is there also the belief that Financial General will run into no difficulties during the next five years? In other

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words, are they giving the Americans that they are giving control of this company to carte blance for five years to see how the Americans are able to do with it or is there the possibility that after two years, if Financial General does not prove as successful as was originally contemplated, they would stop being passive investors and become more active?

MR. CLIFFORD: I do not foresee any event of that kind taking place. I think that their judgment is a basic one. That they wish Financial General to continue being an American Company; that they believe that this is the road to success.

I do not believe that the expect phenomenal results in any two years or anything of that nature.

I believe that they believe that the operation under the American aegis with the kinds of business that they can send into this bank will make it a much more successful operation than it is. It will take some time to do that.

I've never received the slightest suggestion from them that any time their attitude toward the company would change. They have presented to me the thought that this is their attitude and it is a permanent attitude.

SHEIKH ADHAM: I reaffirm that.

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MR. RODRIGUEZ: Even if Financial General should not be successful over the next five years, should suffer any losses, unforeseen at this moment?

SHEIKH ADHAM: We are going to be in that boat, and whatever management at the time advises us to do, to help the investment to survive or to be stronger, and if the situation is very bad, we expect them to give us advice of what to do.

MR. MANNION: Is there any intention or is it foreseen that there may be additional investors added to the group in the future? There was some illusion to possibly selling additional stock. Is it contemplated to broaden the base from 14 investors to some larger number in the future?

MR. ALTMAN: If I can answer. When I was talking earlier about new stock offerings, I wasn't suggesting that the group itself would be expanded.

There is no present contemplating to change the composition of the group.

MR. CLIFFORD: I think what we had in mind was that we were talking about different ways of raising additional capital, if it seems necessary, that we had in contemplating of going to the present investors and saying that we would like to get out additional stock and getting them to buy additional stock and

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raising the capital in that manner.

MR. MANNION: We have a few lines of questions that we would like to explore concerning the personal financial condition of the individuals, and I'd like to preface those comments by asking either Mr. Clifford or Mr. Altman to comment on the confidential nature of information that you are making available to us or are willing to make available to us.

Specifically, information that has been given to us in the past, is that generally available to the public or can you just comment on that?

MR. ALTMAN: The information which we have submitted in the confidential exhibits is not generally available. Mr. Mannion, you and the other members of the Board staff would understand that people have a desire to maintain their business affairs in a confidential manner, and we have submitted the information to you with the request that it be maintained as confidential.

MR. MANNION: Is -- are there any problems, political problems or situations in the homeland of any of the individual investors that preclude them from making this kind of investment or the fact that if the investments were known would be harmful to them.

SHEIKH ADHAM: Not at all. It is only

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sometimes the man in the street surrounded by all the problems in our area, when they see some of the notable men in the area make investments outside, they might lose confidence, and this is really the main thing that some of the rules, in particular, are afraid of.

MR. MANNION: I didn't know that there were men in the street in Saudi Arabia just like here.

MR. TUTTLE: Mr. Mannion, are you asking about -- if you are asking that question for a determination as to whether the list of investors, which is in the confidential section, can be made public, we would like to make a further submission on behalf of at least those individuals who are rulers of the various countries as to the confidential nature.

MR. ALTMAN: We had requested that the identities of the minority investors be maintained as confidential because their identities alone would pose
problems for the reason that Sheikh Adham has explained,
and certainly personal financial information about
those investors we would request be maintained as confidential by the Board.

MR. MANNION: So you are talking about the less than five percent shareholders -- less than 10 percent shareholders?

MR. ALTMAN: Less than 10 percent shareholders,

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except for Mr. Fulaij who had already publicly disclosed his holdings in the submission of his schedule 13b.

MR. MANNION: Is it publicly known that the Abu Dhabi Investment Company is making this investment?

MR. ALTMAN: It is not.

MR. MANNION: It is not. What about Mr.

Darwaish on behalf of the minor --

MR. ALTMAN: Yes, that is public information.

MR. MANNION: I think you should probably clarify that for the record as to which investors, if it is confidential, so that we know that.

MR. ALTMAN: Mr. Mannion, on your list of investors which is contained in the confidential exhibit, the only names which have been publically disclosed L. are Sheikh Adham, Mr. Darwaist and Mr. Fulaij.

MR. TUTTLE: If you would like, we will make a further submission for the record with respect to the arguments of confidentiality.

MR. MANNION: We're still going to have
to get into some general questions about the financial
statements that have been given to us and get a better
idea of the resources of some of the individual investors,
and I'd like to begin with Sheikh Adham. Your proposed

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 investment in this organization is some \$30 million.

Would that be -- would that be the largest single investment that you have in any particular endeavor?

SHEIKH ADHAM: No, I have various investments in other parts, various sections of business.

MR. MANNION: Would you regard this as one
of your larger investments?

SHEIKH ADHAM: It isn't the largest investment as far as I'm concerned, but it is within my means.

MR. MANNION: Do you have any other investments in the United States that would say -- well, just answer that question.

SHEIKH ADHAM: I think I'm willing to prepare

-- I don't really have offhand but I am willing to

supply all the information that would satisfy you through

Mr. Clifford.

You mean by, for example, if you have a house or piece of land or something like that or what?

MR. MANNION: Well, I was really more concerned about investments in companies where they would be more significant investments, both in terms of dollar amounts or a large share ownership interest.

MR. TUTTLE: Right now about five percent of the companies in the United States. We were informed by his accountants.

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by his accountants.

SHEIKH ADHAM: If I had that experience, I would not have been in this position.

MR. RODRIGUEZ: Sheikh Adhamn, have you had an investment in a bank in the United States before?

SHEIKH ADHAM: Yes. I had an investment in a bank through some Arab friends as, you know, and they said, "We want to invest in this bank." It's called the Commonwealth. And when I took advice from BCCI, they told me the best think you should do is to get away and sell your shares and get out of it, and that's why really I value their advice.

MR. CLIFFORD: I don't know what happened to the bank.

MR. RODRIGUEZ: So you no longer have an interest in that bank?

SHEIKH ADHAM: No.

MR. ALTMAN: The record should reflect that he says no.

MR: MANNION: Do you have any investments in banking organizations in other countries?

SHEIKH ADHAM: Yes, I do but not too much.

I have some shares and I will give all the information
You know, what happens is that during filing of this
it took how many years to -- we invest every day in

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 things. Whenever there is an opportunity, we invest so if you askme after one month to -- whether this list is right, I will tell you, maybe it isn't. I have to go back and see what other investments I made. But I will supply you with all the information you require that will satisfy you.

MR. ALTMAN: Sheikh Adham has instructed us as counsel to sit down with the Board's staff to go over all of the financial submissions that we have made on his behalf. Also to check with his accountant and be certain that you have the most complete updated list.

SHEIKH ADHAM: Additional things that took place during the --

MR. ALTMAN: And that you have whatever verification you need to satisfy yourselves that the list is accurate. And we are prepared to do that immediately when this meeting concludes.

MR. MANNION: How do you keep track of your investments? Do -- it's been indicated that you are a very wealthy man, but the financial statements that were prepared by your accounts that we have appear somewhat sketchy, and in this particular investment with the proposed holding company, you are turning over the control -- the voting control of your shares

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and the direction of Financial General to Americans.

Do you typically turn over the investments that you make to someone else and --

SHEIKH ADHAM: I prefer in certain countries where I have an investment that the management should be from that country.

MR. RYAN: How will you -- perhaps I should address this to Mr. Clifford. How will the representatives of the group on the Board communicate progress in the results of the bank and its performance back to the investing group? Will there be any special kind of communication or will there simply be submissions of quarterly reports that are available to any shareholders or how will the group be kept informed?

MR. CLIFFORD: I would expect, Mr. Ryan, it would be more than that. Over this period of the last two years, we have met regularly, mostly in London. I would expect that that would continue. We'd send quarterly reports, and then occasionally some event would happen that might warrant a letter.

I would expect, however, that we would continue to have meetings at regular intervals at London.

SHEIKH ADHAM: Halfway.

MR. CLIFFORD: Almost halfway. He comes a little farther than we, but he is in London a good

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deal so we would meet and keep the contact in that manner.

SHEIKH ADHAM: I think, Mr. Mannion, there is also something else that would make it much easier for you to know about the people who -- investors who are in this venture. Like, for example, asking other men who could verify the financial status of this gentleman, whether he's capable of handling a business of that magnitude. This is always -- bank references are very important. You can have that. I think we will supply you with all the bank reference you want.

MR. MANNION: Have you dealt with American banks?

SHEIKH ADHAM: Not in deposit making. I mean, I don't put deposits in American banks, but most of my business -- for example, companies -- you know, they put every day to day business is done through banks, and there, there are American banks in Saudi Arabia. There is the Citibank. Now it's half Saudi and half American.

MR. MANNION: Are you actively involved in the running of any companies or would you regard yourself as a passive investor in everything that you invest in?

SHEIKH ADHAM: Well, there is not any company

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that I run by myself fully. I am in most cases as chairman, and they report to me and they tell me what's going on. I have so many managers and directors, and this is almost through all of my business.

MR. MANNION: So you are really not active in the running of any business?

SHEIKH ADHAM: No.

MR. MANNION: You delegated that to some
other individual.

SHEIKH ADHAM: Or professionals.

MR. MANNION: Maybe I would like to turn some similar questions to the other investors that are here. Mr. Fulaij, do you have any investments in American banks?

MR. FULAIJ: No.

MR. CLIFFORD: The answer is no.

MR. MANNION: Do you have any investments in foreign banks?

MR. FULAIJ: No.

MR. MANNION: How would you describe yourself?

Are you actively involved in the running of any companies or are you primarily an investor? What do you do for a living?

MR. FULAIJ: Yes, in Kuwait, you mean?

MR. MANNION: Yes.

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1	MR. FULAIJ: Of course, you know, the same			
2	as as you know, I'm the chairman for one company,			
3	you know, and some other			
4	MR. MANNION: It's hard to hear you, I'm			
5	sorry.			
6	MR. FULAIJ: And somebody with me, you know,			
7	and they report			
8	SHEIKH ADHAM: He's the chairman, and he			
9	has some partners who run the business for him.			
10	MR. MANNION: In your testimony I think			
11	in your statement, you used the initials to describe			
12	a company. Is that the company that you're referring			
13	to?			
14	MR. FULAIJ: That's a company I have. It's			
15	not very important. It's work, you know.			
16	MR. ALTMAN: He says he has a small company			
17	for the import of commodities.			
18	MR. FULAIJ: A small company.			
19	MR. MANNION: What kind of commodities?			
20	MR. FULAIJ: Food and some equipment.			
21	MR. ALTMAN: Food and some equipment.			
22	MR. MANNION: I'm sorry, what is KIFCO			
23	K-I-F-C-O?			
24	MR. FULAIJ: I am chairman of this company,			
25	investment company.			
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 MR. MANNION: Mr. Khalil, I'd like to turn to you now and ask you the same line of questions.

Do you have any interest in the United States banks, investments in the United States banks?

MR. KHALIL: Not at the time being, only .
my interest on the new approach. I don't have anything.

MR. MANNION: Have you had interest in banks before?

MR. KHALIL: No.

MR. MANNION: Do you have any investments in foreign banks?

MR. KHALIL: No.

MR. MANNION: And what would you describe your active pursuits being right now?

MR. KHALIL: I have companies whom design electronic system as in telecommunication, computer system, mechanical, electrical. I have a joint venture with American companies, with British companies on the work in Saudi Arabia. They are my partner. I have my office where I deal with a lot of commodities as gold and silver. I do a lot in this business. In Saudi Arabia, one of my messages that I was telling my friends that usually I believe with something that I need and touch and so when I work in gold and silver, always my investment is one-third on the book so I

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deal with shares, and 2/3 I prefer to buy and bring to Saudi Arabia, so just to have something like a museum in Saudi Arabia with a lot of gold and silver which worth more than -- with the whole show with antiques, more than \$30 million, and I'm ready to invite all people to visit me there and be my guest.

MR. MANNION: That's your museum?

MR. KHALIL: Please.

SHEIKH ADHAM: I believe also Mr. Khalil deals in real estate, which is really a very important sector that these people here are not aware of. The real estate increases a great deal.

MR. MANNION: In Saudi Arabia.

SHEIKH ADHAM: In Saudi Arabia. I mean, if we were to buy land or something, and you sell it after one or two years, you at least triple or four times the price so there is a lot of -- a big boom, you know. So many of us really buy land and sell land.

MR. MANNION: Mr. Gohary, I'd like to ask you the same questions. Do you have any interest in United States banks at the present time?

MR. GOHARY: No.

MR. MANNION: What about foreign banks?

MR. GOHARY: No.

MR. MANNION: How would you describe your

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primary interest at the present time?

MR. GOHARY: I am a man of profession, you know? I am an economist, and I give this advisory business, many to Sheikh Adham and some work I do on the Board of Directors of some companies, which I mentioned in my small memo, and that's all.

MR. CLIFFORD: I'm not sure that Mr. Gohary understood one of your questions. He does have an interest in a Delta bank, I believe, if you still --

MR. GOHARY: That's a foreign bank.

MR. MANNION: U.S. bank?

MR. CLIFFORD: Not a U.S. bank. He misunderstood your question. When you said a foreign,
he didn't know what you were referring to. I just
want you to be aware that he had an interest.

It is in the documents that we submitted for the application.

MR. MANNION: You have an interest in a local bank?

MR. GOHARY: I have a bank share in the Delta Bank of Egypt.

MR. MANNION: Okay.

MR. GOHARY: So it's nor foreign to me.

MR. MANNION: Is that an investment in that

bank or are you active in that bank?

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		MR.	GOHARY:			I have	an	investment	there.
I own	two	perce	ent	of	the	capita	al.		

MR. MANNION: Are you an officer or director of the company?

MR. GOHARY: Yes, I'm a director there on the bank.

MR. MANNION: You would describe your principal occupation as being an advisor, financial advisor to individuals?

MR. GOHARY: By director, you mean member of the board?

SHEIKH ADHAM: Member of the board, member of the board.

MR. MANNION: What would you describe your primary activity as being? If you were to describe yourself, you would say you were an advisor, financial advisor or --

MR. GOHARY: Economist.

MR. MANNION: Would you be able to supply information with respect to the other investors along the lines of the questions that I have been raising with the gentlemen that are here? Whether -- some of it I am sure is in the application already.

MR. TUTTLE: My letter of November 5, I think, includes a good deal of information exactly

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along the lines of who they are and what they do, and makes representations to the nonownership of U.S. banks and corporations.

And I think you have enough there. If there is anything additional you want, we will attempt to furnish it, but I believe it is in that letter.

MR. ALTMAN: Yes.

MR. MANNION: You had indicated that you had been engaged in a search or negotiations for a chief executive officer that you might bring abourd. We understand the sensitivity about divulging that person's name, but could you give us an idea of the kind of person that you have been looking for and possibly the present rank of that person or give us an idea of what you have in mind?

SHEIKH ADHAM: The best available in the United States.

MR. CLIFFORD: We want to find, first, a commercial banker, and second, we want him to be an experienced commercial banker; and third, we want him to be a successful commercial banker; and fourth, we want him to be well regarded by his colleagues; fifth, we'd want him to be well regarded by the Federal Reserve who would know something about him.

Hopefully, he has an important job now.

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I think it would not make any difference to us whether he was a president of a bank or a senior vice-president or executive vice-president, but we would like someone who is up in the top hierarchy of a bank.

And I guess first of all, the requirement would be that he would be an American. We would like him to have some foreign experience because we believe that it is possible that in that area lies the greatest potential for the banks in the Financial General family because under the new ownership, many of the opportunities we believe will be in the foreign field.

We do not consider that a condition precedent but we think it would be a valuable asset for him to have.

We have talked with persons who have substantial banking experience. Maybe they have been bankers to 20 years, possible 30 years. We have talked to men who are presidents of banks. We have talked to men who are executive vice presidents of banks, and we have found a good deal of interest.

But until we reach the point that we can give them some degree of assurance, then they are loathe to cut off their ties to their present job and embark upon the new one that is not yet a certainty. I hope that answers your question.

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MR. RYAN: Would you envision bringing in more than one commercial banker? I mean, you have apparently interviewed several people, and you have indicated that you intend to bring in a chief executive officer for the holding company. Do you also intend to bring in --

MR. CLIFFORD: We have left that open, and the reason we've left it open is because of experience that I know I have had not only in government but with business.

If you bring a man in and you say, "Now, here you are to come into this position, and we have also chosen X who we are bringing in at the same time," you get a division of responsibility. I think that is unwise.

I think it is unwise, for instance, to bring a man in as a cabinet member in the government and then tell him the top four positions, we've already filled, and these are the men that you inherit when you come in to be the cabinet member of that department. It makes a very poor system.

We want to pick out the men in whom we have confidence, and bring him in as president and CEO, and we would not consider the possibility of others until we had him in place because he is going to have

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the main responsibility. That would be my answer

MR. MANNION: Are there any more questions along the lines of management or questions about the personal background of the investors?

MR. RYAN: There is just one that keeps nagging at my mind, and I realize that it has been answered, but I'd just like to have the concept a little clearer.

If Financial General a year or two or three down the road began running into difficulty because -- and excuse me, because, say, of misjudgments made by the people with whom you have entrusted your shares, what action would you take?

SHEIKH ADHAM: Well, I think that the logical thing, whether it was in America or elsewhere, is to try to save the investment, and we are all people who will do their best to save the investment, if that is what is needed.

If we feel that perhaps through our friends who know or watches the Board of Directors that it is the mangement, that somebody in the management, that it was because of that, then we'll ask their opinion and maybe we can replace the manager. But we will not let the bank go down because we are involved; our names are involved.

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MR. RYAN: Money.

SHEIKH ADHAM: The money.

MR. RYAN: Could you take control back if you deemed it necessary? I assume that if the trust was misplaced -- I'm not suggesting that it is in any way; I'm just raising a hypothetical - and the kinds of management decisions that you expected to be made on your behalf aren't being made.

 $\begin{tabular}{ll} \begin{tabular}{ll} Then can you revoke the agreement with Mr. \\ \begin{tabular}{ll} Symington. \\ \end{tabular}$

MR. TUTTLE: Under that agreement, control was never surrendered. The investors have the absolute authority to direct the voting of the shares at any time under the agreement, and in addition, it's the executory contract that could be revoked at any time by any investor anyway, even if they had surrendered.

MR. ALTMAN: I think your question, Mr.

Ryan, goes to whether or not there are any circumstances which might induce the investors to operate the property themselves?

MR. RYAN: Yes.

SHEIKH ADHAM: We have no intention to operate the property in the sense of the direct banking dealings. But we have aims and goals to strengthen this bank so that our investment would be more valuable

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 and with it, even will serve the communities. If you have a bank well-capitalized, well-managed, it will also help the community.

MR. RYAN: Would you consider the various companies that the investor group has financial interests in as being potential customers of the Financial General Banks? Would that be one source of international business that might flow to Financial General as a result of --

SHEIKH ADHAM: What do you mean by customers? You mean borrow?

MR. RYAN: Yes, borrow.

SHEIKH ADHAM: Or depositors?

MR. RYAN: Either or both.

SHEIKH ADHAM: Or let us say if they -instead of offering their credits through Chase Manhattam,
they open the credits through a bank here. We would
channel a lot of business to this bank so that it can
really -- we only know three banks in our parts of
the world in America -- Chase Manhattam, Morgan, and
Citibank.

I think that they should know that there is a third and a fourth, and we will try to do that. But don't expect miracles from us. We will do what we know. But we will count mostly on our advisors

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who know the business better than we do.

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MR. RYAN: I think one question we could direct along this line, and I think I will direct this to you, Mr. Clifford. What do you see, and the other outside directors and by outside directors, I am referring to the directors of the applicant, you and the other three gentlemen you discussed this morning, what do you see as your primary duties and obligations to first, the investors and the banking community, as well as the employees of the bank. How do you see your role as director?

MR. CLIFFORD: I see it very clearly. I've had the advantage now of being a director of Financial General for some months. I see a property which I believe has a great potential. I believe the potential is not being realized. I see the property being managed by the top hierarchy in the company by men of good will, men who are top citizens but men whose main effort is being placed somewhere else. The top officials of Financial General today have their primary obligations elsewhere, and that means that it's time that as left over that they give to Financial General.

Now, I believe that the potentiality is there, and as a director, I recognize the needs that the company has. I think we can supply those needs.

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We want to bring in an excellent banker, and I believe that that banker with the support of the kind of directors we'll have, his first job will be to start in and learn every bank in the outfit.

I think that there is a great deal that goes on in the banks that maybe we aren't quite clear about today. As we've traveled around to the individual banks, after awhile, we would begin to get little indications of areas in which they wish that they wished that they were perhaps getting more support from Financial General.

They would bring that to our attention.

I think that for quite awhile, the new CEO of Financial General is going to want to devote his time to the individual banks, and find out what the banks need.

The reason we want a good commercial bank is so that he will understand more readily what the banks need because he has been in a bank for the last 25 or 30 years.

We don't have such a man in Financial General today so that as he learns about the banks, learns their needs -- some may need capitalization; some other areas. Some of them are in a position now where they have no place to go, and either they ought to decide just to remain what they are or if they are going to

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grow, they are going to have to make some acquisitions.

There is another one of the banks that I think has

made some acquisitions over a number of years, and

I think they were the wrong acquisitions, and they

might want to consider carefully disposing of some

of those branches and getting some others.

I think that they moved in the wrong direction, but there it lies. I said before, I think that the company is standing still and those decisions ought to be made, but they are being pushed off and off.

Part of their being pushed off is our fault because for two years and a half now, we've been saying that we believe that ultimately our hope is that we will take over the company. So that has accounted for a certain inertia that is present.

But prior to that time, there was a good deal that needed to be done that we think was not being done and under the new set up, will be.

That will be our major responsibility as directors.

or do you foresee that some of the members of the Board of Financial General will be changed other than the addition of you and the other three individuals we've discussed this morning?

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MR. CLIFFORD: I think there are a number of the members of the Board who -- well, perhaps all of them will submit resignations at the time of the tender offer and the ultimate take-over. I think that there would be a few of them -- I don't know whether it is two or three, along in there, that I think we would want to stay. The others, I believe we would probably wish to replace, and I think in so doing, I believe that we will get strength to the Board or it might be that we would want more to stay at the beginning and then have an understanding that we would replace them as we found the right man in each instance.

MR. CLIFFORD: Yes, and we would, I think, keep reporting to our principals as to what we were doing and we would also, as soon as possible, get the new president and CEO and work with him, and it may be that he would have some ideas about a director or

two that he might want in a certain area that he thinks

be made by yourself and the other three individuals?

MR. HUFFMAN: And these decisions would

But we will continue to meet the responsibility that the investors have placed upon us, and ultimately we will have the Board that I believe that we would want to live with permanently, and we will

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would strengthen the bank.

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want the officer or officers that we wish to live with permanently.

MR. RYAN: And this goes, again, on the management point, I can't find the precise quote but I recall that there was a statement somewhere this morning made to the effect that the autonomy of the individual banks would be maintained, and there was another statement made that perhaps Financial General in the past has not realized its full potential, and there have been those that have suggested that perhaps one of the reasons it hasn't achieved its full potential was because of the desire to keep autonomous banking units, and I wondered if you had any comment on that.

MR. CLIFFORD: Yes, I do. I know I referred to the policy in the past of extending considerable autonomy to the individual banks. We have committed ourselves to do that also. As I mentioned, in each instance in visiting with the management of the member banks and in visiting with the Board of the member banks, we have told them, we want the management to stay and we want the members of the Board to stay.

And as far as we know, they have all agreed to do it. Not one has said that he chose to leave.

Now, I do not find that inconsistent with improving the operation of the bank. I think that we can get

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management in after we get our new CEO, and sit down and find out from them what do you think would strengthen your bank? In what areas would you like us to be helpful? Over and over again, I note in that interesting Lincolnwood case in the Supreme Court that both the Commission has said -- or the Federal Reserve has said, supported by the Supreme Court, "The function of the holding company is to support the individual banks and render every assistance to them."

We would expect to do that. We already know what some of the banks want, and I see no problem about continuing to maintain autonomy, local autonomy but improving the bank and so it can better serve its area.

MR. MANNION: I think we have moved into the next area which has just been alluded to, how the banks are going to be developing in their operations and what plans the applicants have for them, and we can proceed along those lines for a little bit.

It was indicated that you intend to develop the international expertise of the various subsidiary banks and Sheikh Adham has indicated that there may be a desire or there would be a desire to channel business to the subsidiary banks.

Could you be a little bit more specific

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as to how you envision Financial General becoming more active in the international area?

MR. CLIFFORD: Yes, I think maybe we can all take a cut at that. I'll start. I see really quite clearly one interesting development at the beginning.

I talked to His Excellency about this and some of the others. So many of these men and their associates and their companies do business with American banks. His Excellency says that out in his area, they really only know three banks -- Chase, Citibank and Morgan Guarantee.

Now, -- and he does a good deal of business with them. There is no reason why he can't choose to send substantial parts of that busines to banks in the Financial General family. Maybe the New York bank, maybe some of it to the Washington bank. That's one area. They are already doing a certain amount of business that could be channeled into Financial General Bank.

Another area is --

MR. MANNION: By business, what do you mean?

I mean, it wouldn't be borrowing from the banks?

MR. CLIFFORD: No, I do not -- we were asked that question a good deal as we went in our

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visits. I do not foresee nor have I been told at any stage that it is within the contemplation of our investors that their interest in these banks is that these banks would then make loans out in the Persian Gulf.

I think that is not in contemplation. I think that isn't what they need out there, and that may be something of an understatement.

But I think of the ideas that flow the other way. I believe that they have accounts in various banks. His Excellency has said that he has accounts in a number of banks. A number of those accounts could be transferred to a Financial General Account bank account so that the benefit would inure to that bank and ultimately to Financial General.

I know that there are other types of banking operations in which a bank is an important entity in foreign transactions. Perhaps there are letters of credit, guaranteed letters of credit. There is a whole area of that kind in which a bank can serve and charge fees, and I have been led to believe in some instances that it is really quite profitable.

There is another area that we've not discussed, and that is His Excellency and others do a good deal of shipping. I think, as a matter of fact, that business could be channeled into the Baltimore

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 bank that is owned by Financial General. His Excellency told me -- I had not known at one time -- that Baltimore is the third largest port on the Eastern Coast of the United States, and that thre is a good deal of export and a good deal of import in and out of Baltimore.

I think that Baltimore bank could begin to get some business that it just doesn't get at all now, and those are just thoughts that occur to me with my limited knowledge, and I know that there are some banks in this area that are engaged in a very substantial endeavor to develop foreign business.

Well, I'd like to see us engaged in an effort to develop foreign business because I think we could put a very good man in charge of that, and with the contact that we have in that part of the world, I believe that we would be developing more foreign business than some of our competitor banks.

Now, why don't we let His Excellency -SHEIKH ADHAM: Yes, I was just going to
say that in many cases, we have investors who, let's
say, have \$5 million, and if they deposit this money
in Chase Manhattan or Morgan, nobody will give them
the service that -- they receive billions of dollars
from other investors.

I think we can channel many of these

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depositors here because they will find a better service.

They would be looked after and so on because it would

be considered as an important contributor to the development of the bank.

example, Chase and others, maybe in New York where, for example, Chase and others, maybe in New York we can give them a service through the bank there, but they can see that there are other banks that can give a better service, perhaps even better guarantees because when you talk to a big bank of a guarantee, they will say, "You are questioning my position," and so on.

But the small banks will probably give a better guarantee.

MR. KELLER: Is there any thought at this time that Financial General might develop a Middle Eastern presence with some sort of an office or anything of that sort?

MR. CLIFFORD: I have not heard that.

SHEIKH ADHAM: We haven't talked about this. I think management later on can -- I think the most important thing is the chief executive officer. When we get the right man, we will be able to discuss with him whatever suggestions he has to improve this line of cooperation.

MR. MANNION: Have you reviewed the individual

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banks in what they have been doing in serving their

local communities specifically under the Community
Reinvestment Act? Have you assessed their record and
made any judgment as to whether or not they have been
doing a good job or if there are areas that need attention?

MR. CLIFFORD: I certainly haven "t done that. I'm not qualified to do that. We've developed relationships with them so we've discussed with them what it is they are doing. From time to time, we continue to be in contact now with the chief executive officer of some of the leading banks because I think that there are adjusting themselves to the possible change that might take place.

I have the feeling that some of the problems we might have gotten into had it not been for a policy decision that we have made. We have made a policy decision not to start in until we are authorized to do so, the taking part in decision-making in the member banks, and from time to time, personnel problems will come up and maybe the man will call and say, "This is what we had to do. What is your judgment with reference to it?"

Our answer in each instance is, "We are not in a position to give our reaction to it. We have

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not been authorized to, and we are going to remain apart from the internal operation of the banks until and unless we are ultimately receive authority to do so.

So that we have pretty much gone out of our way to avoid getting drawn into some instances. I know that some of the banks in which the decision has to be made regarding the CEO, and that is being held in abeyance right now. And there are other banks that have acquisitions they want to make, and that is being held in abeyance in hopes that the matter will be expeditiously determined and then they will be able to start working with Financial General management.

MR. TUTTLE: If I might cite something in the answer. I think Mr. Mannion was referring to the Community Reinvestment Act and the consideration we gave to that earlier.

Financial General has a history of not only being an economist bank, but essentially being local banks which provide very good service to the communities, to the best of our knowledge. All of their subsidiary banks have met their responsibilities to their local communities.

I think as Mr. Clifford indicated earlier,

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 there are some areas in which it is our belief anyway that the subsidiary banks have asked for some help from the holding company that would enable them to better arry out programs in local communities, and they have not received that kird of assistance.

I think it is the intention if this application is approved that a stronger holding company would contribute better to community services.

MR. ALTMAN: If I might just have one final point. It should be understood that while we talk about new services that can be brought to these banks, there is no thought or intention of minimizing or disregarding the kind of service they presently provide.

Rather, the concept is to add a new dimension to the bank while maintaining the kind of service and improving the service which is presently being rendered.

MR. MANNION: It's, I think, a natural assumption, and you've discussed the fact that the acquisition could lead to an expansion of the international services, but the reason for the question about the CRA record of the individual banks is to have you deal with the issue that sometimes is raised where foreign individuals are purchasing American banks, and that is what can you do or say to assure that these institutions can continue to be, say, good citizens

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of the communities in which they are located.

This organization is a U.S. holding company now, and its ownership will be transferred to foreign individuals that are not citizens of the United States, and how is it that you can assure the Federal Reserve as well as the state regulatory agencies that are here that these institutions will continue to play a vital role in the communities in which they are located?

MR. CLIFFORD: Again, perhaps we ought to give a joint answer but I will start.

We begin with the local level. We start with the management of the 12 banks, and that management has operated the bank. As far as we know, it has operated the bank in accordance with the laws of the Federal government and with the state, and that local management will continue to operate the bank.

The second level, and above that, would be the board of that local bank. That board will remain the same. They remain American. They will operate the bank as they have in the past, hopefully with better support from Financial General, but there again, both the "Fed" and local authorities can be assured that that bank will be operating as it has in the past because it will have the same management and the same directors.

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You step up one level, and you find then that we have the management of Financial General, and it will consist, we believe, of competent banker or bankers who will be interested in maintaining the banks in the best condition possible who have experience in operating under national and state banking law.

So you have that reservoir of support and safety.

You step up the other level, of course, is the Board of Directors of Financial General which we have already discussed will consist of Americans. We believe men who, by their own careers, have demonstrated that they are law-abiding, that they have carved distinguished careers for themselves by rendering public service, and that is another level of protection.

Now, for whatever it might be worth, then you have us, the firm, the law firm and me who have beengiven this responsibility by our investors that here in the United States, we act as another safeguard or level of inquiry to see that the operation is going properly.

I think that the last step in it is that
the "Fed" is dealing with men who, because of the reputation that they have in their business careers -- His
Excellency and his associates, have already demonstrated

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 their willingness to abide by not only our laws but
the laws of the various nations in which they operate
so that I think from that standpoint, with those safeguards that are built in at the various levels, I think
that you can be well assured -- I think, in fact, is
you can be convinced that there will be meticulous
compliance with the laws and regulations of the United
States.

SHEIKH ADHAM: I think the fact that the individuals are involved in — as an investor group and not a bank makes things much more relaxing as far as your lawyers because we will have to count on professionals and the Board. In case of other take-overs such as a bank, an English bank taking an American bank over, they will probably think that they have better management in England. They will appoint some people here, and they will intervene and this is not the case in our objective. That's all.

MR. MANNION: Let me expand or follow up on this question. Have you specifically looked at the CRA records of the subsidiary banks to ascertain whether or not they are good or bad or if there have been any CRA complaints filed with respect to any of the banks?

MR. TUTTLE: We have not updated that

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 since the time of the application. At the time of the application, we asked for that information and are unaware of any complaints of any substantive nature at any of the banks. We would be delighted to update that. It's been some time since the application, and if a further response is needed, we will submit them.

MR. MANNION: So to your knowledge, there have been no citizens groups that have been concerned about the, say, I notice in the list of the banks, there are banks that service Baltimore, Albany and New York City urban areas that on occasion have had some problems with their financial institutions not being somewhat receptive to the needs of the community. Or at least allegations to that effect. Do you --

MR. TUTTLE: Again, we believe that all of their banks have a history of, you know, starting out as local institutions and serving their local communities directly around their bank, and maybe we have been remiss in not doing an update, but we are unaware of any citizens groups which would raise the complaints in this regard.

We will ask Financial General to obtain that information. I think it would have come to Mr. Clifford's attention by being on the Board, and I don't think we are aware of any.

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MR. RYAN: One of the concerns that is often raised when the prospect of a foreign owner acquiring a U.S. bank was raised is that there will be an export of lendable funds, that the bank will collect funds locally and lend them abroad, and local community will be deprived of the credit it needs.

I take it from what has been said here today that that's clearly not the case or not contemplated with Financial General. Indeed, if anything, the opposite may be true. There may be imported lendable funds, is that correct?

SHEIKH ADHAM: That's correct.

MR. CLIFFORD: May I add the comment, Mr.

Ryan, in almost each instance when visiting with the

Boards of the individual banks, that question would

come up and we answered it. Answered it categorically.

And that is that there is no contemplation that funds

would be taken from the community that produces the

funds, and then the funds being deposited in a bank,

and that those funds would be lent abroad.

It's not the purpose of the take over. There would be no sense in it, and the local bank is in charge of that in any event.

The local bank makes the decisions through its management and directors as to how they're going

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to lend their money, and that system will continue to prevail.

MR. CLIFFORD: You might say there is another

MR. CLIFFORD: You might say there is another question we received at every Board meeting. It hasn't come up here, but I just mention it because it did come up each time.

We would be asked, "What part does Bert Lance have in the new management of the bank," and the answer is none. At one time, he did own a few shares of stock. He sold the stock. Retired from participation in it. He has no part of any kind in plans for the future of Financial General.

MR. ALTMAN: I might just add for the record that we are advised by Mr. Beddow who is in attendance that he is unaware of any problems under the CRA, complaints that have been filed.

MR. MANNION: It has been alluded to that

Financial General has a unique franchise being in several

states. It has also been indicated sometime in the

past or there have been comments, just general comments,

that Financial General doesn't have any lead bank.

That there are -- it doesn't have a lead subsidiary

like many typical U.S. holding companies have one large

subsidiary and from that, have expanded to become multi
bank holding companies whereas Financial General has

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 a couple of large banks but also some small ones, and no bank is really the lead subsidiary for the holding company.

Also under section 3D of the Bank Holding
Company Act, it is my understanding that Financial
General would be precluded from making acquisitions
of additional banks except in the state of Virginia
because Virginia would be its principal state of banking
operations.

Do you foresee any changes in the future that would cause Financial General to cause one of its subsidiary banks to become much larger than the others, and thus become the lead subsidiary? Also, do you contemplate any expansion of the banking interest in Virginia through acquisitions or in the other states by merger with other subsidiary banks?

MR.CLIFFORD: I think that that type of planning is still ahead of us, but we have not engaged in it.

It seems to me that the -- that the largest bank in the Financial General family is First American of Virginia, and I think that it is the most profitable bank also. But I would not call it the lead bank.

The New York bank is a small very conservative bank, and I think that perhaps the New York bank might be

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the one that could profit most from new management in the event that this should occur.

I think that their opportunities of channeling business into the New York bank that would come about naturally because it is a New York bank. There also is another opportunity for Financial General, and that is, as you know, it's the one organization existing today that has a bank in the District of Columbia, in Virginia and in Maryland. So that it seems to me that that advantage can be developed and expanded, and I think a lot of attention ought to be given about the type of banking that can be developed, and the kind of reputation that can be developed.

They have already done something in that guard. They have what's called the money exchange that works in the three banks in this area, but there are certain assets that exist here that have really very substantial potential but I think that is about as far as we have gotten with the reasoning today, and very likely about as far as we would get until the decision is made by the "Fed" as to whether we are to go ahead.

MR. MANNION: Are there any more questions dealing with convenience and needs that anyone would like to raise?

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MR. KLINE: Not from me.

MR. MANNION: Why don't we break for, say, five minutes right now and then we'll come back and deal with the financial aspects and then the supervisory matters, okay?

(Whereupon, a short recess was taken.)

MR. MANNION: Let us continue again. Commissioner Bailey indicated to me that he may have to depart a little bit early, and indicated that with respect to the outline of the program that we had set forth in our letter, that he would not be desiring to make any closing comments at this time.

He preferred rather to see applicant's written response to his set of questions, and then ask for a period of time after that, a week to 10 days to submit some further written comments.

So my question to the applicants would be in lieu of Mr. Bailey making a closing statement which he feels that he is not prepared to do at this time until he sees your answers to the questions, would it be acceptable for you to provide him with a copy of your answers, and then have Commissioner Bailey submit any additional comments that he may have with respect to the proposal, say, 10 days after he had them served on him?

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MR.CLIFFORD: Yes, that's entirely acceptable.
MR. TUTTLE: This is a case in which the
record is never going to close if we don't come to
some point.
MR. ALTMAN: Well, our only concern, Mr.
Mannion, would be the delay, that there are financial
considerations here and delay in the processing of
the application by the Board affects all of the financial
arrangements that are being made. It could make the
deal a good deal more costly.
So we have no objection whatever to the
procedure you've outlined, but we do just want to note
our concern on that point.
MR. CLIFFORD: I think Mr. Bailey is familiar
with the fact that time might result in the costs going
up, and I'm sure he will act as expeditiously as he
can.
MR. BAILEY: I am certainly going to do
what I can.
MR. CLIFFORD: Thank you.
MR. MANNION: Well, then, Commissioner Bailey

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we will proceed, and whenever you have to leave, feel

free to do so. A copy of the transcript will be made

available to you by the Board, and I will repeat this

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at the end.

 But it should be noted that a copy will be made available to each of the agencies that have decided to send observers here as well as one copy will be made available to the applicants. Additional copies may be purchased from the reporting service,

Neal Gross and Company, and that can be made -- arrangements can be made for that with the transcriber.

Any request for copies of the transcript should be submitted to the transcriber and if any of the agencies receive requests, they should not honor them because the transcript is the property of the Board and the transcribing service, and it should not just be duplicated and made available to other parties.

There will also be confidential deletions to the extent that any need to be made in the transcript.

MR. BAILEY: Thank you.

MR. MANNION: Now, why don't we proceed -one comment came up and it's a question that has come
up in the past in discussions with applicants, but
we thought it would be appropriate to just clarify
it here on the transcript, and that is how the names
came to be developed for the applicants in this case,
and any similarity that exists between those names
and BCCI.

MR. CLIFFORD: Yes, I think I know that.

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 I did not attend the meeting but there was a meeting of the lawyers in New York at the time that the decision was made to create the two companies, and the decision was made at that time or perhaps had been made that one would be Netherlands Antilles Company and another one would be a Netherlands Corporation.

I think generally the terms "Credit" and the term "Commerce" are terms that are used extensively in the Persian Gulf in financial affairs.

His Excellency has said that he deals with banks that used the terms "credit", " and used the terms "commerce." Of course, a number of banks use the term "commerce." We have one in the financial family -- the Bank of Commerce in New York.

I know of no additional reasoning behind it. Apparently the decision of naming the two corporations as was the decision as to where they should be located was left up to the lawyers, and those decisions were made when the lawyers had that meeting in New York.

Seeif anybody can add anything to that.

MR. ALTMAN: Well, it bears -- other than similarity in certain respects, there is no connection between those entities and BCCI in terms of ownership or other relationship. I think that Sheikh Adham made

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that clear in his statement this morning.

MR. BOSTIAN: As long as we are talking about BCCI, may I ask one question? I think it has been pointed out that BCCI was brought in early as an advisor but that subsequently made suggestions to their customers to invest in Financial General, and that sometime in the future they may be called upon for other functions or activities upon the decision of the Board of Directors, and the new Chief Executive Officer of Financial General.

What precisely is their function, if any, in this proposal at the present time?

MR. CLIFFORD: None. There is no function of any kind on the part of BCCI. I think when the question was asked, having to do with what might occur in the future, I think someone may have given the answer, "Well, that would depend upon the judgment of Financial General in the future."

I know of no present relationship. I know of no planned future relationship that exists, and other than that, I don't know what else there is to say, Mr. Bostian.

MR. MANNION: We'll move in now to the financial area and the financial aspects of the proposal.

Most of this questioning will be led by Mr. Ryan and

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his staff, but as a nonfinancial expert, I'll begin by asking one question.

borate on his presentation where he talked about the new financing agreement and giving some further details about that. You indicated that Financial General was not guaranteeing the loan, and maybe you could talk about who is guaranteeing the loan; who is obligated to pay? Are the investors? Are they personally liable on the loans to any extent?

And also there is some question about the numbers that you have now given to us or alluded to in your presentation, and the numbers that were in the application.

MR. ALTMAN: Let me clarify. The loan has not been finalized, but we do anticipate that we will shortly obtain a commitment letter. The amount of the borrowings has been increased for the reasons that I explained this morning. In the application it was set forth as approximately \$44 million. The borrowings now are anticipated to be \$50 million.

The loan is not expected to be personally guaranteed by the investors. It is a loan which will be made to this Delaware corporation which we plan to organize. Financial General is not liable on the

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loan.

It is expected that the interest rate or at least it has been proposed that the interest rate be 1-1/2 percent over LIBOR, and there would be no prepayment penalty. We would expect that the loan would be repaid in nine or 10 years, and it is expected that during the first three years, it would be an interest only payment, and then subsequently the principal would be curtailed.

Is there anything you would add to that?

MR. TUTTLE: I might add that the three

year grace period is mainly a matter of convenience

and to make sure that people were not overly optimistic

in their projections; the projections we will furnish

the Board, principal will begin to be curtailed in

the first year.

But under the agreement in principal that has been reached with the bank, there is no obligation to pay down principal for the first three years.

MR. MANNION: When -- is the stock in Financial General collateral for the loan?

MR. ALTMAN: It has been requested that the stock of Financial General be used to collateralize the loan.

MR. MANNION: And you haven't agreed to

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 that yet or --

MR. ALTMAN: There has been no final agreement made on any of these terms, but this is the nature of the discussion that we have had, and we have to finalize this arrangement very shortly.

MR. MANNION: If the stock were collateraled, there would be no restrictions on Senator Symington continuing to vote the stock, though?

MR. ALTMAN: That is correct. They are aware that there is this voting arrangement and that does not present an obstacle.

MR. MANNION: Am I correct that you and Mr. Tuttle handled the negotiations for the loan with the consortium bank that is making --

MR. ALTMAN: We did.

MR. MANNION: What kind of financial information did you give to the consortium bank?

MR. ALTMAN: The consortium bank was familiar with the investors themselves. We have supplied to them certain of the information that has been supplied to the Federal Reserve. I cannot recall specifically what was given to them. We have given the Federal Reserve so much material that it is hard to separate the two.

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MR. TUTTLE: They have large portions of the application, and they have the projections and they have the detailed financial information on Financial General and its financial statements.

Again, they were aware of the investors.

MR. MANNION: Is there any information that has been given to the lending banks, consortium banks that has not been given to the Federal Reserve?

MR. ALTMAN: No.

MR. TUTTLE: No.

MR. MANNION: Mr. Ryan, would you want to proceed.

MR. RYAN: Could you explain to us the purpose and financial structure of the proposed Delaware corporation?

MR. ALTMAN: Yes, the Delaware corporation is intended to be a wholly owned subsidiary of CCAI. It is not expected to be an operating entity. It will borrow the funds and in addition, it is expected that that corporation will make the tender offer. The sole purpose of that corporation would be to affect significant tax savings for the investors which puts them in a better position to service the debt which is being incurred. Anything you would add, Mr. Tuttle?

MR. TUTTLE: It allows the consolidation

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 of the tax returns of the Delaware Corporation, and Financial General so that the debt service paid by the Delaware Corporation comes out of Financial General as an expense item pre-taxed, and that generates significant tax savings, sole reason for it.

MR. KLINE: That debt will be the bank debt, though?

MR. TUTTLE: The loan from the consortium bank, that's right. The interest payments on the \$50 million loan will be allowed for tax purposes only to be carried as an expense item on Financial General and consolidated tax returns prior to the payment of Federal income taxes, and it generates significant tax savings when you have a 56 percent corporate tax rate.

MR. RYAN: And under this arrangement, there wouldn't be any debt in CCAH and CCAI?

MR. TUTTLE: That's correct.

MR. RYAN: It would all be in the Delaware Corporation?

MR. TUTTLE: All the debt is in the Delaware Corporation with that arrangement.

MR. RYAN: This \$50 million in debt that is being incurred as a result of the acquisition, will be serviced from what source -- what source is

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 expected to be used to provide the cash to pay the interest on that?

MR. TUTTLE: Dividends from Financial General and as Sheikh Adham stated in his earlier statement, if those dividends are not sufficient to service the debt, we would intend that the investors either service it personally, issue additional equity or whatever is necessary to service the debt.

MR. RYAN: Just -- it's always very difficult to deal with numbers, but just very quickly I was looking at the annual report of Financial General, and in 1980 it received in the form of cash some \$7 million from its -- from dividends from the various subsidiary banks.

It had -- it has already some \$21 million in debts that it owes, I gather, to various -- to banks in the United States. And the debt servicing requirements on that \$21 million announced to -- amounted to, in 1980, some \$2.85, almost \$2.9 million. If my arithmetic is correct, the \$7.1 million in dividends minus the \$2.8 million required to service the \$21 million in debt leaves roughly \$4 to 4-1/2 million in cash available to service \$50 million in new debt.

That new debt, if it's 1-1/2 -- I think you said over LIBOR, today's rates would be in the

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neighborhood of what, 18 percent?

MR. TUTTLE: No, we are led to believe that it would currently be about 16 percent.

MR. RYAN: 16 percent, which would -- about \$8 million.

MR. TUTTLE: \$7-1/2 we figured it out.

MR. RYAN: There wouldn't seen on the surface to be enough cash flows to service that additional debt, absent an increase in dividend flows from the banks.

MR. TUTTLE: In addition to dividend flows from the subsidiary banks, I believe you also have payments — income tax payments that go out, and I think Financial General paid out this year some \$5.2 million in dividends after paying taxes, and I'm not quite anccountant, and I am assured by the accountants that have looked at it that the cash flow is there, and we would be happy to tell you in more detail where it comes from. It is there; in addition to the dividends, there is substantial tax payments, I believe, that go out to the holding company. In the event — well, there are accrued tax payments, also, I believe. Whether or not they are actually paid, caulculated on a — I think they calculate them on an individual basis. I believe they do.

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MR. BEDDOW: We do file a consolidated tax return. The individual banks pay taxes on the assumption that they were filing them as a separate, and they pay the money into Financial General. Financial General has tax-exempt income because the dividends are tax exempt that it receives, so they have a shelter—those payments that come up—and they create about \$2 million in cash a year out of that process.

MR. TUTTLE: And any additional tax savings will create additional cash out of the process because it won't be paid to the Federal government. Portions of it will not be paid to the Federal government.

MR. RYAN: In other words, the individual banks calculate their taxes as though they were paying them as an individual unit.

MR. TUTTLE: Rather than paying up in dividends.

MR. RYAN: And they pay that up to the parent, and the parent because it is paying on a consolidated basis, has a combined tax liability considerably less than the sum of all the parts and it keeps the difference, is that correct?

MR. BEDDOW: Yes, because of our tax-exempt income, the dividends coming up to us are only 85 percent tax exempt, and if we have expenses, we have a

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deficit for tax purposes every year, which is used to offset the gain that the banks have made and therefore, we pay a lower combined tax than the sum of the taxes paid by the individual banks. And we keep the difference.

MR. TUTTLE: We would be happy to submit along with the projections a statement as to cash flow, and we will demonstrate the consistency of it.

MR. RYAN: Well, you understand that one of the principal concerns that we have results from \$50 million of additional debt being brought into the organization that was not there before.

MR. TUTTLE: We have run the projections, and because of the \$12 million equity, even taking into account the cash flow and service of dividends, the capital ratio is up markedly for the first two or three years, and over the nine to 10 years, debt service remains above the current consolidated capital ratio of Financial General, and the projections will demonstrate that.

MR. RYAN: Now, if I could clarify, as I understand Sheikh Adham, a statement was made that if dividends are not sufficient to service the debt, then the individual investors would individually provide the funds for the debt service, is that correct?

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 SHEIKH ADHAM: Yes, that is what I said in my statement.

MR. RYAN: In that regard, could I explore just for a moment the statement, if the dividends are not sufficient. Does that assume the maintenance of a certain adequate level of capital in those banks irrespective of the earnings of the banks?

SHEIKH ADHAM: That's really a technicality.

This is a very technical question. What I was referring to is that if there is a problem in servicing the loans that are required and the profits are not enough, then we will volunteer to help pay these loans.

MR. ALTMAN: In that regard, His Excellency,

I believe, has indicated that he would rely on management to assure that capital was maintained at an

adequate level. The projections that we have run evaluate
the maintenance of adequate capitalization in Financial
General, and it is our belief that capitalization can
readily be maintained.

But I didn't understand the rest of your --

MR. TUTTLE: I finally found the page. It takes me a long time to read a financial statement.

I finally found the page you're at, and I believe that page absent, you know, the income tax effects that we were talking about before shows that there is \$9

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 million at the end of 1980 available at the holding company.

MR. RYAN: And yes.

MR. TUTTLE: And we are talking about, you know, you add the tax credit to that, and that's somewhere around \$2 million, somewhere around \$11 million, and we are talking about \$7.2 million in service and additional tax, but we will give you a diagram that sets it forth, but I believe there is adequate — it just took me awhile to find that page.

MR. MANNION: Are the individual investors going to make their commitment in writing to pay any shortfall in the debt retirement if the dividends aren't sufficient?

MR. ALTMAN: Mr. Mannion, it has not been reduced to writing thus far. I think that is something that we would consider, whether or not there was any need; as I have indicated, our projections, even done on a conservative basis, suggest to us that the debt can be serviced quite readily, but in terms of a commitment, I think we would have to consider that a written commitment.

MR. TUTTLE: We would have to consider the form in which it would take because you've asked Mr. Altman whether there were personal guarantees, and

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there are not personal guarantees, but it is contemplated under the loan agreement that the holding
company will issue additional stock in any year in
which there is a shortfall, and that will be an obligation that that be issued, and then it is offered to
the investor group, and we would like whatever we say
in terms of how it works to be consistent with the
loan agreement.

There is no problem with the concept. The problem is making sure that we don't run afoul of one or the other before we have a final loan document all signed off with all the clauses, but it is contemplated that the holding company is required to issue additional shares and offer them to the investors and then there is a series of things.

MR. MANNION: and then do the individual investors have to take it up in proportion to their existing interest?

MR. TUTTLE: There is no requirement that taking it up be proportional.

MR. ALTMAN: Only the requirement that it be taken up.

MR. MANNION: The maintenance, of course -I think this is such a critical point, the maintenance
of an adequate level of capital in those subsidiary

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 banks is of fair amount of importance to us, and I'm sure to you as well.

Often the capital levels of banks decline not because of inadequate earnings, but because of more rapid than anticipated growth, and under certain circumstances, that capital is needed to provide the support for that growth rather than being paid out in the form of dividends to provide cash to service debt that was not there prior to the acquisition of the stock.

MR. TUTTLE: The projections have been run at both an 11 percent growth rate, and a growth rate that varies from 14 through 16 percent, and the debt gets serviced within 10 years under either set of projections and current interest rate levels so we are rather comfortable with the fact that rapid growth will still allow us to maintain capital ratios.

MR. RYAN: Would you be willing to make certain undertakings regarding maintenance of an adequate level of capital within the subsidiary banks before deciding on payment of dividends? In other words, let me be more specific. Kind of what I had in mind was numerical ratios, total equity capital to total assets of a certain amount, and then an agreement that unless that ratio was maintained, that

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no cash dividends would be paid out for the purpose of serving what is, in effect, acquisition debt?

MR. TUTTLE: The first question, obviously, would be, do you have a particular ratio in mind?

 $$\operatorname{MR.}$ RYAN: Well, that's something we could talk about.

MR. MANNION: 10 maybe?

MR. RYAN: No, of course not.

MR. ALTMAN: Sheikh Adham in his statement this morning indicated that that might be an appropriate course, to form those dividends in order to ensure the maintenance of adequate capitalization.

It is difficult at this stage to determine whether that is the most appropriate means of maintaining adequate capital or whether in discussions with management, they might feel that there is a better alternative. Also you would get into the question, I think, of exactly what is the ratio, but I think it is a subject that we would be glad to explore with you.

MR. RYAN: The problem I have, you know, is that adequate capital, is determining which adequate capital was more of an art form than a science. And adequacy is often in the eye of the beholder, and the management of an institution very often has a different

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 view of what is adequate than the regulatory agency that is resonsible for the oversight, regulatory oversight institution.

MR. CLIFFORD: Often times there is a good deal of difference, too, between a smaller bank and a very much larger bank.

MR. RYAN: There certainly is, but we could explore that some more. As I say, it is so critical because of the addition of this \$50 million of debt in the organization that's not there now, and we, at the Federal Reserve, don't want to be in the position of approving a bank holding company that's going to bring additional debt over a group of banks that may cause those banks some difficulty over time trying to service that debt. That's kind of the reverse of the traditional role we see of bank holding companies in providing a source of strength to subsidiary banks.

MR. ALTMAN: Well, it is certainly not the intention of the investors through the financial structure to weaken or undermine the financial strength of this holding company. Quite the contrary, it is anticipated and planned. There is no intention to drain off needed funds from Financial General to sustain growth in order to service debt.

We believe that our projections demonstrate

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that that would not occur, and we think that a rather conclusive assurance in that regard is given by the investors' statement that they would be willing, out of their personal funds, to pay the debt service in any year in which income was inadequate. But I do believe that we are sensitive to the concerns of the supervisory authorities and believe that it is a subject that has merit and is worth exploring subsequent to this meeting.

MR. MANNION: Why don't we move onto the last area that we have, and that is the ongoing supervisory concerns that may exist with foreign individuals owning a U.S. banking organization.

I think our initial concern in this area is the prospect or the possibility that individuals, investors that get control of a banking organization, could conceivably use that banking organization to further their own interest and thereby do a disservice to the condition and the soundness of the banking organization itself.

What plans do you have in mind for seeing to it that the Financial General subsidiary banks are not abused to further the individual interests of the individual investors?

MR. ALTMAN: Well, the record should show

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 that Mr. Bailey and his colleague -- Mr. Bailey and Mr. Schutt have had to leave.

MR. CLIFFORD: We discussed that before,
Mr. Mannion, and I won't belabor it but there are builtin protections as we visualize the future of Financial
General.

First place, just very briefly, the funds of the individual banks are under the control of the management which, in turn, is under the control of the Boards of Directors.

And there, as we mentioned, is the first protection. The management of that bank, supported by the Board, has to make any kind of a decision regarding loans, where the money of that bank goes. I'm saying that that is the kind of protection that will continue to exist. You have heard His Excellency comment about the attitude — the attitude of Financial General toward extending continued autonomy to the individual banks. You have also heard me reiterate that in each instance that we have met with the individual banks, we have asked management to stay and we have asked the Board members to stay.

I know of no way that instructions or directions can be given that would force the individual banks to lend money in a manner or transfer funds in

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a manner that would be inimical to the best interests of the bank.

I've talked about the other protections
that exist -- that is, the Financial General management
that will be -- consist of an experienced banker. I
have talkedabout the Board of Financial General which
will continue to be made up of Americans at the will
and direction of the investors, so that there, again,
they are not subject to the direction of anyone. They
are the managers. The Board of Directors of Financial
General sets the policy of Financial General. Nobody
else sets the policy of Financial General. The Board
of Directors does, and they, in turn, inform the management of Financial General what that policy is.

I.. say again that I think the last level of protection is the fact that we have mentioned to you that we have agreed with the investors that we shall stay in the picture, and that we shall continue to be close to it. We shall monitor what goes on at Financial General which, in turn, is in charge of seeing what goes on in the member banks.

Also at all stages, there are the regulatory authorities — state regulatory authorities of each state and the federal regulatory authorities which require periodic reports as to what is going on within

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the operation of the member banks. Maybe someone in our group has something to add to that.

MR. ALTMAN: I think that covers it.

MR. MANNION: It was indicated that there are no plans and it's not contemplated that the interest of the individual investors would be borrowers of Financial General subsidiary banks. Is it worth exploring to developing some kind of mechanism to ensure that the interest of the investors do not become borrowers from the subsidiary banks?

MR. ALTMAN: I would think, Mr. Mannion, that we would not want to give some commitment in that regard. Ultimately, the decision whether credit is extended is one that would be made by the management, as Mr. Clifford has suggested, and it might be quite valuable to a particular subsidiary bank to be able to make a loan on attractive terms to a company in which one of the investors has an interest so I don't know that I would think that that would be an appropriate kind of commitment to give.

If would, of course, done in compliance with U.S. laws and regulations to the extent these were loans extended to entities in which the investors had interest.

MR. CLIFFORD: I have a further reaction.

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 Such loans are not going to be made except by the decision of the individual banks, and that's where the management and the directors come in.

I sense there is a factor in there that would indicate that we have some lack of confidence in the investors, that they are going to attempt to twist the operation of the banks in such a way that they would profit by it.

I don't feel any consciousness of that fact at all. I know of no contemplated effort in that regard. I don't know how they would achieve it. Do you picture individual investors going to one of the banks and saying that we direct you to make a loan to us?

That's wholly unrealistic. It doesn't operate that way. At the same time, I don't want to restrict one of the member banks from making a loan that the management feels is a proper loan; the loan committee feels is a proper loan. Perhaps there was a committee of the Board that approves it. If they have some question about it, they take it up with the American manager or CEO of Financial General, and if he has some doubt about it, he takes it up with the Americans who are running the Board of Financial General.

So I suggest that we are attempting to strain for something there that is not in the cards.

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 MR. MANNION: Well, there are certain restrictions on loans to affiliated organizations as well as loans to the related interests of insiders.

MR. TUTTLE: We have explained to the investors all of those provisions and the principal investors will comply with FIRA. They will submit the reports that they are required to submit, and they will comply with all applicable laws and regulations relating to their loans. To go somewhat further and suggest that there was some reason that they should voluntarily agree that none of their affiliated entities will ever borrow implies that there is something malvolent in your scheme, and it is not their intention.

We have explained in great detail these provisions, and I think that Sheikh Adham can tell you that he understands them and will comply with them.

SHEIKH ADHAM: I don't make to make a special law for us designed for this purpose. Any laws we will abide by fully.

MR. MANNION: Your American counsel have explained to you in detail the restrictions of American laws and --

SHEIKH ADHAM: All is clear, and I am ready to abide by that.

MR. MANNION: The other investors, too,

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166 have they been advised of the requirements of the Ameri-1 can law? 2 MR. FULAIJ: Yes. 3 MR. KHALIL: Yes. MR. GOHARY: Yes. 5 MR. TUTTLE: They were somewhat incredulous 6 that that was the law, but they have been advised. 7 SHEIKH ADHAM: It is difficult for us to 8 understand. It is a different mechanism completely. 9 I pose the question which was relevant at the time, 10 but supposing I am a depositor, and I have \$50 million --11 not as a shareholder but as a depositor. Is there 12 a differentiation between the depositor who seeks a 13 loan to buy some business or something like that or 14 because the shareholder, they would disregard them 15 completely whether he is a depositor or not. 16 . MR. TUTTLE: You must consider that he gets 17 somewhat sorse treatment as a depositor because he 18 was also a shareholder. 19 SHEIKH ADHAM: So these are the laws. We 20 will abide by them. 21 MR. MANNION: Mr. Huffman indicated to me 22 that they had some more financial questions so we will 23 just backtrack for a moment. 24 MR. HUFFMAN: Just a couple of things. The 25 **NEAL R. GROSS**

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 role of the managing director of CCAH and I is a little unclear. I wonder if you would describe what that is, what the duties and responsibilities --

MR.TUTTLE: That is the name given under the Netherlands law to a person who is a director, and there are, as I understand it, there is a requirement and I'm not, obviously, an expert on that law. We are told that there is a requirement that there be two managing directors and a resident director, and there are two managing directors and the resident director, and I don't think there will ever be any board meetings.

They are shell corporations. They are nonoperating. So in a real sense, there is no role other than technical compliance with Netherlands law.

MR. FOGELSON: It's purely Netherlands' corporate law, purely.

MR. ALTMAN: When you are advised of these requirements, we have Netherlands' counsel.

MR. HUFFMAN: Why was Mr. Bisher chosen as a managing director as opposed to one of the other gentlemen, to go along with Mr. Symington?

MR. ALTMAN: Originally he had considered becoming an investor in the group. For personal reasons which I do not know, he has determined not to pursue

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this particular venture, and we did not go to the trouble of changing what is, in fact, a technicality, just an effort to comply with Netherlands' law.

I would intend at some subsequent state, that we would replace Mr. Bisher. He has no role whatever in this acquisition program.

MR. TUTTLE: Under Netherlands' law, you don't change a director the same way you do in the United States. You just elect one. You have to go through some formalities and file some papers, and at the time we filed the application, it was pending proposed legislation in Congress which didn't give us -- we thought that the amount of the time necessary to make those changes, but there is no magic to him, and he will be replaced.

MR. HUFFMAN: You indicate in the application also that subsequent to the consummation of the proposal, should it be approved, that you would be acquiring all of the Class-A common and all of the preferred stock.

MR. ALTMAN: I don't believe, Mr. Huffman, that's quite what we said. What we have said in the application is that the investors would evaluate the decision whether to acquire the Class-A or the preferred, and they reserve the right, depending on circumstances,

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not to acquire any.

MR. KLINE: Well, let's take it on the assumption that the decision would be made to acquire it.

How would that be done, and where would be the funds

come from?

MR.HUFFMAN: With these amounts of money as this involved, it's kind of difficult for us reading the --

MR. TUTTLE: It would be about \$16 million.

MR.HUFFMAN: About \$16 million?

MR. TUTTLE: Just in a rough calculation, it would be about \$16 million, depending on when it's done. It's going to be a lot less than that over time because the preferred is retired over time, and I think currently the Class A preferred account for about eight percent of the total outstanding stock.

MR. ALTMAN: I don't think we can give you a figure because we don't know what shares would be valued at, at the time they were acquired so it would be impossible for us to say it would be \$16 million or some other figure.

MR. TUTTLE: The problem is that it is not imminent, is what we're saying.

MR. ALTMAN: There is no imminent decision to acquire that stock. Subsequently, if the company

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is performing in accordance with our expectations, a decision may be made to acquire it but we had expressly reserved the right not to acquire the stock.

MR. KLINE: I think what we are trying to assure ourselves here is that there would not shortly be after consummation of this an additional significant borrowing.

MR. ALTMAN: That is not contemplated. We think we can satisfy you in that regard, Mr. Kline.

MR. HUFFMAN: And also the capital, the \$12 million capital going into the organizations would not be used for that.

 $\mbox{MR. ALTMAN:} \mbox{ Again, that is not a problem,}$ $\mbox{Mr. Huffman.}$

I will just note for the record that this is a discussion in the application at page 34 where we reserve the right not to acquire the stock.

MR. MANNION: Are there any enterprises that the individuals are common investors in? To your knowledge, besides -- besides --

MR. CLIFFORD: Putting it another way, do any of these men all have investments in the same enterprise? You mean, just as a starter? I do not know.

Other than Financial General, at anyplace?

MR. ALTMAN: Do any of you own an interest

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in the same company, two or more?

They would probably have to know each other's balance sheets.

SHEIKH ADHAM: We will find -- I mean, we will try to get each one and see who is working with whom.

MR. TUTTLE: Do you really need that? I mean, some of them may have common investments with others. I'm sure that is probably none that they all four have, other than this. I'm not sure.

MR. MANNION: Well, you know, there would be some need for that in order to determine whether or not there are other entities that are affiliates of the subsidiary banks of Financial General, if there are shareholders that own 50 percent of Financial General and they then own 50 percent of some other enterprise, those organizations are affiliates.

MR. TUTTLE: With respect to those individuals, we can compile that information when and if it becomes necessary in order to assure you that we are complying with U.S. laws and regulations. I think you are talking about two problems. You are talking about — with respect to all the investors, that's a huge problem, plus it involves some centralized points so that one investor doesn't have to disclose to the other

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his personal financial details. If you want to cut it off at the 50 percent level, I mean, we could try to find -- I don't really see a purpose in it, but we could try.

MR. MANNION: There would certainly be a purpose in identifying the affiliated organizations.

MR. TUTTLE: For purposes of 23A?

MR. MANNION: Yes.

MR. TUTTLE: We can do that at such time,

I think, as they are regulated -- you know, they are
a regulated institution, and 23A applies to that. I

mean, at this point, it is a very substantial job.

If you would like -- you know, we have a -- we have
already told them that they would get a detailed manual
on compliance with U.S. laws and regulations and 23A

and FIRA are included in that. And at that time,
we will comply with it.

But in advance, that's a huge task.

MR. MANNION: There is one common investment that was, I think, divulged, and that's BCCI. Aren't there several --

MR. ALTMAN: Some of the investors have interest in it which we have set forth in our letter to you, minority shares.

MR. TUTTLE: Everyone here, it turns out,

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MR. MANNION: But you are not aware --

MR. TUTTLE: But it is not 50 percent.

MR. MANNION: No, but we don't know who the

other shareholders of BCCI are.

does have an interest in that.

MR. TUTTLE: We know who the other shareholders of this company are, and --

MR. MANNION: And we know that none of them are additional shareholders in BCCI?

MR. TUTTLE: That's right. The list we have given you is out of the 14 investors, these are the only ones who own shares of BCCI.

MR. MANNION: Well, maybe that's something that we can explore further to see what kind of information that you can come up for us. Are there any other questions that --

MR. RYAN: I've got one. Kind of a wrap
up question, if I may, and I'd like to direct it to
Mr. Clifford who serves on the Board of Financial General.
What is your assessment of, should the Board of Governors
here for any reason decide to deny this application,
what is your assessment of the impact of that action
on Financial General and its future operations?

MR. CLIFFORD: The question elicits a wholly speculative answer in an area that I have not thought

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 contemplated now that the change will take place. We are aware that the shareholders of Financial General strongly support the project.

It is our belief that the individual banks

about before. I believe that it would be quite a serious

setback to Financial General. I believe that it is

have been preparing for it and, as a result of the relationship that we've developed that they expect that it will lead to a closer relationship between the individual banks and Financial General.

I believe that the present top officers of Financial General are in the process of making other plans. The President and CEO of Financial General is going to go into government. I think that the Chairman of the Board of Financial General perhaps looks forward to the day when he will be relieved of the present position. I know that he has a number of other important plans that he is working on.

So that I think the general reaction would be of one of a substantial letdown. I think that the new board members that we bring on ar adding something to the board. I believe that their interest wanes very seriously if the whole project does not go through. I would see a situation in which something would have to be done. If the Board should choose not to give

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r believe that Financial General could just be permitted
to lie there, and I don't know quite what would be
done..

I suppose that you could start in and try to build on the present existing circumstances. I believe that would be very difficult to do. Maybe others would add something.

MR. ALTMAN: I could add a couple of points.

I think the most obvious and immediate impact would
be felt by the shareholders. The price of Financial
General has moved up in anticipation of a tender offer.
We are advised by our investment bankers, Kidder-Peabody,
that they would expect that this stock would fall off
very, very sharply. A lot of people would suffer a
real economic loss.

Secondly, as Mr. Clifford explained this morning, Financial General has not been realizing its potential. Take the case of First American Bank of Maryland, that bank has steadily been losing market shares. This company needs a revitalization. It needs a strong management team installed and, in order to be able to sustain the kind of growth which is warranted in order to compete in today's market that needs capital. And over the last four years for example, there has been no new capital which has come into the

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company.

So I think it would be a very serious setback for this operation.

MR. CLIFFORD: Just a concluding comment in that regard, Mr. Ryan. There is no one else on the horizon. All during the years that we have had this going, no other group, no other company has said that they are willing to step up and do what this group is willing to do.

MR. MANNION: The outline of our program indicated that now the state agencies or the Comtroller, if they desire to participate or to make closing comments, and Mr. Bailey was the only one who desired to participate in that fashion, and we have already agreed that he will await your written submissions in response to his questions.

You now have the opportunity to make any closing comments that you would care to make with respect to a proposal.

MR.CLIFFORD: My comment would be a very brief one. First, I would like to express in behalf of all of us and our investors, our appreciation for the courtesy that we have received here today. You have been exceedingly professional in your inquiry. They said at luncheon they were very impressed by the

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manner in which you were proceeding. That means a good deal to us. We have brought them here from a long ways off, and they have understood the importance of it. They have been impressed by the inquiry. I'm pleased that they feel that the trip has been very much worthwhile.

You have brought out the factors that concerned you. It is our hope that we have satisfied you. We have confidence in our people. We have confidence in the project. We believe that we can make it into the kind of operation that will be beneficial to the areas in which the banks are serving at the present time. We are prepared to do anything that you men think is necessary to provide you with information.

We wish to answer Mr. Bailey's questions.

We know that we can. We'll have that answer in within a week. We do have a constant concern over the time factors. We are operating under real restrictions, and we have other problems ahead of us that we wish to get onto.

We have been wanting the "Fed" to move in this regard, and then hopefully your decision would come down as promptly as you would be able to deliver.

So that we can then get onto the other circumstances. If we got other approval, and we anticipate

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that we will, we need a certain amount of time for the tender offer. There is quite a lot involved. There is a lot of money to be gotten together. There is a lot of money to be mailed out to a lot of American shareholders, so we thank you for your consideration. We appreciate your courtesy, and we hope that the Board will move as rapidly as conditions will permit.

Thank you very much.

MR. MANNION: There are a few items that
we will anticipate hearing from you on. One is a response
to Commissioner Bailey's set of questions, and you
have indicated that you will submit that in a week.
Do I take that to mean April 30, which will be next
Thursday?

MR. ALTMAN: Yes, sir, 30th or 31st, yes.

MR. MANNION: Then Mr. Bailey will have 10 days to respond, which would roughly be May 11, as I see it, Monday, May 11.

Could you also review the letters that we sent to you dated April 17, to see that you have responded to any of the questions that were raised in there that may not have been dealt with in the oral presentation? As well as the comments that were offered by the Comtroller of the currency in his March 12, 1981, letter. I believe that you have dealt with

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most of those issues, but to the extent that they have not been responded to, I believe that you should address those.

Now, there is one other item that is -
MR. TUTTLE: We will be giving you a letteralso on the --

MR. MANNION: Yeah, well, I think in reviewing the transcript, you will see that there are a few items that you have indicated that you will be supplying us and they can come when they are due or when they are ready.

We received a letter this morning. Actually, it was addressed to the Chairman, Chairman Volker, and we will make a copy of it available to you. It's from the Minority Leader of the Senate of the State of New York, Manfred Orenstein, whereby Senator Orenstein asked that certain questions be addressed to Financial General. This proceeding was meant to be a proceeding involving the Federal Reserve Board, and the state supervisory agencies and the Comptroller of the Currency.

However, since these questions have been presented to the Board; we will pass them along to you, and to the extent that you believe that they raise issues that should be responded to, we believe that

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you should also comment on those letters. They raise some 17 areas. I won't set any timetable on that, but whenever you desire.

MR. ALTMAN: We will move promptly on all of these.

Mr. Keller will just identify some of the areas that we think that you are supposed to be submitting information on.

MR. KELLER: I think in the course of the day, there were some other things that were indicated that you would be submitting. If I leave some out that you have thought of, perhaps you could also mention them for the record.

One, I think that there was going to be a cash flow diagram that was going to be presented in light of the new financing. Another was that we had posed a number of questions regarding the banking and additional investments of the individuals who could be with us today, and you — the request that similar questions with respect to the other investors be asked and responded to.

MR. TUTTLE: When you get my letter, if you will look at that, if you have any further questions, let me know and we will be happy to respond to them.

MR. KELLER: And third was a letter, I

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 think, which Mr. Tuttle had indicated that he would send in which further delineates the request for confidentiality regarding the list of investors beyond those that have previously been disclosed.

MR. ALTMAN: There is one other matter.

Mr. Keller, you had indicated in previous discussions that it would be necessary to sit down and discuss further verification of assets of the investors; if that becomes necessary, we-- let me volunteer that we are available to meet with you at your convenience and to pursue that so you may be, as Skeikh Adham says, fully satisfied in that regard.

MR. MANNION: Well, on behalf of the Board,

I'd like to thank Mr. Clifford, Mr. Altman, Mr. Tuttle

and other representatives of the applicants, and in

particular, the investors that have come, Sheikh Adham,

Mr. Fulaij, the Khalil and Mr. Gohary for taking the

time to be with us.

I think it has been a very fruitful and useful meeting from the standpoint of the Board's staff, and hopefully, from your standpoint also.

And also to the extent that the state agencies were able to be here, we appreciate their particulation.

Copies of the transcripts will be made available to you to each of the state agencies and Comptroller.

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I remind you that those will be property
of the Board, and they should not be disclosed to other
individuals outside of your agency. They should only -any request that you may have for those should be directed
either to the reporter or to the Board of Governors.

Thank you very much.

MR. ALTMAN: Thank you very much.

MR. CLIFFORD: Thank you very much.

(Whereupon, the meeting was hereby adjourned.)

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551

DIVISION OF BANKING SUPERVISION AND REGULATION

December 13, 1989

Mr. Robert A. Altman, Esq. Clifford & Warnke 812 Connecticut Avenue N.W. Washington, D.C. 20006

Dear Mr. Altman:

In connection with the application of Credit and Commerce American Holdings N.V. and Credit and Commerce American Investment, B.V. to become a Bank Holding Company with respect to Financial General Bankshares Inc. a question was raised concerning the financing of the investor's equity participations. Specifically, an issue was raised on whether any of the financing of the equity investment would be provided directly or indirectly by Bank of Credit and Commerce International S.A. (BCCI). It was indicated at the time that the individual investors had substantial funds and only a modest portion of the total investments would be financed. Further, any personal borrowing by the investors would come from financial institutions unaffiliated with BCCI.

It has come to our attention that at least some of the investors may have borrowed from BCCI. It may be that these borrowings were unconnected with the Financial General Bankshares transaction, but nevertheless, were granted close to the time the acquisition was made. Some, if not all, of the borrowings may be secured by the stock of Financial General Bankshares. In order to clarify the situation it would be helpful if you would provide information on any loans extended to the original or subsequent investors, either directly or indirectly, by BCCI or any of its affiliated organizations. This information should include all loans extended to the investors regardless of purpose, whether any of these loans are secured and if so, in what manner, and the

- 2 -

date any loans were originally granted. It would also be useful to provide information on the repayment history of any such loans.

If you have any questions, please do not hesitate to contact the undersigned at (202) 452-2722.

Very truly yours,

Signed William Ryback

William A. Ryback Deputy Associate Director

bcc:

S. Sussan
D. Kline
L. Bostian (Fed Richmond)

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I further understand that a copy of this matter may be provided by you to Mr. Ryback on a confidential basis.

Sincerely,

SWALEH NAQVI



BANK OF CREDIT AND COMMERCE INTERNATIONAL SOCIETE ANONYME 100 LEADENHALL STREET LONDON ECJA 3AD

PRIVILEGED & CONFIDENTIAL

January 31, 1990

Mr. Robert Altman, Esq., Clifford & Warnke, 815 Connecticut Avenue, N.W. WASHINGTON DC 20006. U.S.A.

Dear Mr. Altman,

I am writing in response to your inquiry concerning whether there were any loans from Bank of Credit and Commerce International, S.A. to any of the shareholders of Credit and Commerce American Holdings, N.V. in connection with the acquisition of Financial General Bankshares in March 1982. I have reviewed a copy of the letter dated December 13, 1989 addressed to you from Mr. William A. Ryback of the Federal Reserve that you provided me, as well as the original and current list of First American shareholders which you also made available.

As I explained, I cannot provide you with confidential information about our customers' financial arrangements with BCCI without their express prior authorization.

On a preliminary basis, I am able to confirm the accuracy of the representations made to the Federal Reserve in the Board application that the acquisition of Financial General Bankshares was not financed in any respect by BCGI. Insofar as the Federal Reserve has been informed that "some of the investors may have borrowed from BCGI," we can confirm that none of the shareholders involved in the acquisition had any personal loans from BCGI during the years 1981 (when the application was filed) or 1982 (when the acquisition was completed). The Board's misimpression may be due to the existence of some unrelated loans from BCGI for working capital requirements of various other businesses in which certain shareholders had interests. Of course no stock of CCAH or Financial General was placed as collateral for these loans. I trust this is helpful as an interim report. When I am able to provide full details, it should be completely dispositive.

You should be aware that in the years following the acquisition, some of the persons who are on the list of shareholders of Credit and Commerce American Holdings, N.V. have from time to time borrowed from BCCI for various purposes. Other individuals — including some who appear as the larger investors in First American — have not borrowed from BCCI, and do not have any CCAH stock pledged to secure outstanding loans.

Letter to Mr. William A. Ryback February 5, 1990 Page 2

the letter confirms the accuracy of the representations made by the investors in their Board application. Mr. Naqvi states flatly that BCCI did <u>not</u> finance the acquisition "in any respect." Mr. Naqvi has asked that his letter be handled on a confidential basis by the Board.

*

I shall, of course, press ahead with my request for the detailed information you wish to review, with my understanding that your primary interest is the current state of borrowings from BCCI by any of the First American investors, including any stock that may have been bledged 37 collateral for losns. I further understand that you are not basically interested in loans to various businesses in which shareholders may have interests, but instead are interested in their personal borrowings or any of their loans secured by First American stock. I shall keep you fully informed as I obtain additional information from the shareholders and/or from BCCI.

I trust this is helpful as a preliminary report. If you have any questions or comments, please let me know.

Sincerely,

Robert A. Altman

CABLE CLIMET
TELEX MOSSS CLEY

7ELEPHONE (202) 010-400

Clifford & Warrsho Altornous and Counsellors at Law 315 Connecticul Aronus Washington, D. C. 20006

ROBERT A. ALTMAN

DIRECT LINE (2021 828-4238

February 5, 1990

BY HAND

Mr. William A. Ryback Deputy Associate Director Division of Banking Supervision and Regulation Federal Reserve Board Washington, D. C. 20551

Dear Mr. Ryback:

I am writing in response to your letter dated December 13, 1989, and as a follow up to the telephone conferences we have had regarding the issues you have raised.

*

As we have discussed, we do not have access here to information regarding any financial arrangements that might exist between a shareholder of Credit and Commerce American Holdings, N.V. and other financial institutions, including the Bank of Credit and Commerce International. S.A. ("BCCI"). Based on our consultations with the resident managing director for Credit and Commerce American Holdings in the Netherlands Antilles, we can only confirm that no pledge or security interest has ever been recorded on the Company's share register by any lender.

In order to be properly responsive to your inquiry, and given the practical difficulty in communicating quickly with these shareholders, we concluded that the most expeditions way to procure the information would be to ask BCCI directly to furnish it. Accordingly, I spoke with Mr. Swaleh Nagyi, the Chief Executive Officer, and provided him a copy of your letter together with a list of the original and current shareholders.

I have today received a reply from Mr. Naqvi which is self-explanatory. While BCCI has not yet provided the detailed information we are requesting, we are pleased that

CABLE CLINEY TELEX 840858 CLEY TELEPHONE (202) 828-4200

Cliffird & Warnko Attorneys and Counsellors at Law 815 Connecticut Arenus Washington, D. C. 20006

ROBERT A. ALTMAN

DIRECT LINE (202) 626-4235

June 11, 1990

BY HAND

Mr. William A. Ryback Deputy Associate Director Division of Banking Supervision and Regulation Federal Reserve Board Washington, D. C. 20551

Dear Mr. Ryback:

As a follow-up to our meeting on May 21, 1990, this is simply to confirm Baldwin Tuttle's earlier oral report to you that Mr. Swaleh Naqvi, BCCI's Chief Executive Officer, has advised he has no objection if the Federal Reserve wishes to show his January 31, 1990 letter addressed to me to other supervisory authorities.

Again, if you wish us in the future to seek any additional information concerning any financial arrangement between First American's shareholders and BCCI, please let us know.

Robert A. Altman

cc: Baldwin B. Tuttle, Esq.

CABLE CLINEY TELEX 840880 CLEY TELEPHONE (202) 828-420

Clifford & Warnks Attornys and Coursollors at Law 815 Connecticut Strenus Washington, D.C. 20006

December 21, 1990

Confidential

Mr. William A. Ryback
Deputy Associate Director
Division of Banking Supervision
and Regulation
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Ryback:

Earlier this year, we responded to your initial inquiry regarding information on any financial arrangements that might exist between shareholders of Credit and Commerce American Holdings, N.V. ("CCAH"), the parent of First American Bankshares, and the Bank of Credit and Commerce International, S.A. ("BCCI").

In our subsequent discussions with you, we were advised that your focus related to the accuracy of the representations made by the investors in their application to the Federal Reserve Board that BCCI did not finance the acquisition of Financial General in 1982. This matter was addressed by BCCI in a letter given to us that we forwarded to you last Spring. At that time, we had noted that we did not have access to information regarding financial arrangements that might exist between the shareholders and BCCI, and have not pursued the matter further in view of the report from BCCI you were authorized to provide other supervisory authorities as desired.

Recently we received information suggesting that a CCAH shareholder, Mr. M.M. Hammoud, now deceased, may have pledged his CCAH stock to BCCI as collateral for large loans from BCCI to two of his overseas trading companies, and we are providing this information as a follow-up to our prior discussions. We

Mr. William A. Ryback December 21, 1990 Page 2

do not know the purpose of the loans Mr. Hammoud obtained or anything further about them. No request was made to record a pledge of these shares on the Company's stock register in Curacao or on the share certificates, actions which would have been necessary to perfect such a pledge. Mr. Hammond voted his CCAH shares throughout, and BCCI never voted them.

Mr. Hammoud died in March, and we have been awaiting documentation from his estate confirming the legal heirs to his CCAH investment. It was in this process that this matter came to our attention. We note that Mr. Hammoud became a First American shareholder in 1986, long after the initial acquisition. He therefore was not involved in the Board proceedings in 1981-82, when the tender offer for the Company was being evaluated.

We would be happy to request any additional information in which you might have an interest.

Robert A. Altman

cc: Baldwin B. Tuttle

EXMINIT 44

Note to Files:

BCCI

January 9, 1990

Robert Altman called in response to my letter concerning loans from BCCI to shareholders of Financial General. Mr. Altman related that he talked to officials in BCCI (Luxembourg) and they are in the process of pulling together the information we need. He states that BCCI told him that none of the shareholders of Financial General directly financed the acquisition with loans from BCCI. However, in subsequent years, some of the shareholders borrowed substantial funds from BCCI because of a slowdown of their business interests in the Middle East and the fact that Financial General was not paying dividends. Some of the borrowings may be supported by a pledge of Financial General stock. He was not aware of the payment history on these loans.

Mr. Altman also related-in confidence-that share-holders of Financial General have been considering a merger with a large Southeast bank. Progress is now to the point where an investment house is working on the numbers; the offer is being seriously considered.

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Audit Division

JAMES E. LEWIS
Senior Vice President and Director of Audits

PRIVILEGED AND CONFIDENTIAL ATTORNEY WORK PRODUCT

December 4, 1990

Mr. Bryan Jay Yolles Clifford & Warnke 815 Connecticut Avenue, N.W. Washington, DC 20006

Dear Mr. Yolles:

This report is provided to you in your capacity as legal counsel to First American Bankshares, Inc. ("First American"), and to assist you in advising the company with respect to matters discussed herein. The report summarizes the results of a review of business relationships between First American, including its subsidiaries, and the Bank of Credit and Commerce International ("BCCI"). As you are aware, the review began in May 1990 to facilitate your efforts to render legal advice to First American and in anticipation of any litigation concerning First American's business relationship with BCCI.

On approximately May 1, 1990, the Audit Division began a review to determine the nature and extent of the business relationships which BCCI has with all subsidiary banks of First American, and to review those relationships for the purpose of identifying suspicious activity, if any. Another objective was to determine if there is any reference to Panama General Manuel A. Noriega in the records of the banks.

The report first details the scope of the audit and then summarizes the audit's findings.

I. SCOPE OF THE REVIEW

Utilizing, among other things, a list of all BCCI affiliates, First American's Audit Division performed the following procedures in a comprehensive review to meet the objectives stated above:

- The data base customer information files for all the First American subsidiary banks were utilized to identify existing account relationships;
- The international data bases at the Washington and New York banks, which do not interface with the customer information files, were reviewed to identify account relationships;

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- Activity in the accounts identified in steps 1 and 2 above was reviewed to identify whether there was any unusual or suspicious activity;
- 4. The personal accounts of selected BCCI officers and employees at First American Bank of Washington, N.A. ("FABNA") and First American Bank of New York ("FABNY") were reviewed for the period January 1, 1984 to June 1990; **
- 5. The personal accounts of First American account officers having customer responsibility for BCCI relationships at FABNA and FABNY were reviewed for the period January 1, 1984 to June 1990;*
- 6. The portfolio of mortgage loans serviced by the First Advantage Mortgage Company was reviewed to identify below market loans, if any, to BCCI employees who had account relationships with FABNA and FABNY;
- Interviews were conducted with senior management at FABNA and FABNY to obtain an understanding of the business purpose of certain identified relationships between those banks and BCCI; and
- 8. The records of wire transfer activity at each First American subsidiary bank were reviewed to identify any suspicious activities as follows:

Period

Bank	Reviewed	
A. First American Bank of New York B. First American Bank of Washington, N.A. C. First American Bank of Virginia D. First American Bank of Maryland B. First American Bank of Georgia F. First American Bank of Pensacola G. First American International Bank H. Valley Fidelity Bank and Trust Company	1/1/85-6/30/90 1/1/85-6/30/90 1/1/85-6/30/90 1/1/85-6/30/90 1/1/88-6/30/90 1/1/89-6/30/90 1/1/89-6/30/90	

Our review was completed in September 1990, and involved the expenditure of approximately 3,500 manhours by members of First American's Audit Division. We had the full cooperation of all First American personnel contacted during the course of this review.

^{*} The objective of steps 4 and 5 was to identify any unusual activity which might be related to money transfers.

II. PINDINGS

A. First American Bank of New York ("FABNY")

By far the largest business relationship the First American banks have with BCCI is at FABNY. In May 1990, various BCCI entities maintained 44 demand deposit accounts at FABNY. Those accounts had an aggregate year-to-date average balance of \$10,684,000, with an aggregate year-to-date average of 13,015 entries each month. Substantially all of those entries are wire transfer transactions for clearing purposes and time placements. Lines of credit also are made available in various categories to facilitate clearing transactions. On the trade side, FABNY advises, confirms, and negotiates letters of credit originated by BCCI. This relationship has generated gross fee income to FABNY of \$280,000 in 1987, \$560,000 in 1988, \$666,000 in 1989, and \$880,000 through October 1990.

FABNY is a member of CHIPS (Clearing House Interbank Payments System), and has access to the Fedwire system. The role of FABNY in clearing BCCI transactions is to credit the designated account for incoming wire transfers and to debit the designated account for outgoing wire transfers. As a clearing bank, FABNY is not informed of the original source or the ultimate disposition of the funds.

We have been informed by FABNY management that BCCI also maintains active clearing bank relationships with Bank of America, Bank of New York, Security Pacific Bank, American Express, and with Citibank. FABNY's senior management reported to us that the volume of BCCI's bank clearing activities with, for example, Bank of America, Bank of New York, and Security Pacific is significantly larger than FABNY's bank clearing activities for BCCI.

As indicated above, the volume of FABMY's clearing activity with BCCI is significant for that bank. Records supporting the origin and disposition of wired funds are not available to and -- by law--- are not required to be maintained by the bank. Thus, although FABMY records track the transfer source of funds prior to accepting the funds, these records identify only other BCCI accounts maintained in other locations throughout the world, and do not provide information regarding the source of the funds. The same is true as it relates to the ultimate disposition of funds for wire transfers from the BCCI accounts at FABMY. As a result of the foregoing, our review of FABMY's clearing activity for BCCI was limited to information in FABMY's records. In this connection, our review disclosed certain wire transactions in large amounts. Since, as discussed above, our review was limited to information in FABMY's records, we were unable to determine the ultimate source or disposition of such amounts.

Our review of deposits to the BCCI New York Agency account at FABNY disclosed that treasurers checks drawn on third party banks, payable to employees of BCCI New York, were deposited into that account. These checks were in individual amounts of less than \$9,000. We did not expand our review to identify all such deposits.

Our review of transactions in the personal accounts of selected BCCI officers and employees who maintain accounts at FABNY, as well as FABNY account officers having customer responsibility for BCCI, disclosed that such accounts have not been used to facilitate large transfers of funds.

The review of mortgage loans serviced by First Advantage Hortgage Company disclosed one mortgage loan to an ex-employee of BCCI's New York office. This loan was made at a market rate of interest.

We found one reference to the name Noriega in the records of FABNY. On February 24, 1986, Amjad Awan -- a former BCCI employee -- cashed a \$50,000 check drawn on a BCCI account at FABNY. The Currency Transaction Report ("CTR"), which was properly filed with the IRS, indicates in Part II that the individual for whom the transaction was completed was "M. A. Noriega" of Panama.

We found copies of CTRs for 22 cash deposits to the BCCI New York Agency demand deposit account made during the period April 1, 1988, through August 31, 1988, which had not been filed with the IRS. The CTRs indicate that the deposits were made by George Barrow, an employee in BCCI's New York office, and were made for the benefit of BCCI in New York. The deposits were in amounts ranging from \$11,027 to \$55,000 and totalled \$683,178. The CTRs were completed at the time of the transactions and, in accordance with FABNY procedures, which were changed in April 1988, were forwarded to FABNY's Financial Management Department in Albany for filing with the IRS. Copies of these 22 CTR's were retained at FABNY's main New York City branch. FABNY's Financial Management Department considered these transactions to be exempt inter-bank transactions by law and discarded the reports. While such transactions do qualify for an exemption under law, BCCI had not formally been added to FABNY's exempt list. These transactions took place during the period FABNY was consolidating its currency transaction reporting in Albany. Steps have been taken to ensure this situation will not occur again, including adding BCCI to FABNY's exempt list. After this issue was brought to the attention of FABNY management, CTRs for the 22 BCCI transactions that had not been filed were filed with the IRS in August 1990 in an abundance of caution.

We also found copies of three CTRs for checks drawn on the BCCI's New York office account at FABNY and cashed by the payees at FABNY. CTRs for these transactions were not filed with the IRS by FABNY's Financial Management Department in Albany as FABNY also considered these transactions exempt under law from the CTR filing requirement. Two checks were dated August 4, 1988; one was payable to Hong Duk Kim in the amount of \$6,000 and one was payable to Hong Duk Kim in the amount of \$44,000. The third check, dated June 10, 1988, was in the amount of \$22,000 and payable to Jesus Lopez. For the reasons noted above, CTRs subsequently were filed with the IRS by FABNY when the matter was called to the attention of management.

In addition to the CTRs not filed during the time period April 1, 1988 through August 31, 1988, discussed above, we also discovered 73 other transactions made during the time period April 21, 1988 through May 4, 1989, for which CTRs were not completed and filed with the IRS. The deposits were in amounts ranging from \$10,000 to \$109,000 and totalled \$3,030,826.37. We also found that there were eight days where BCCI aggregate cash transactions occurred that were not reported

to the IRS. These deposits totalled \$147,542.81. The reason why CTRs were not completed and filed with the IRS for the 81 transactions detailed in this paragraph was that FABNY's Financial Management Department considered them to be exempt interbank transactions by law. Again, as discussed earlier, while these transactions qualify for an exemption under law, BCCI was not formally listed on FABNY's exempt list. After this matter was brought to the attention of FABNY's management, an additional letter was submitted to the IRS in November 1990 explaining the situation.

B. FIRST AMBRICAN BANK, N.A. ("FABW")

During the period of our review, FABW maintained a foreign exchange "Guidance Line of Credit" for the use of BCCI Miami in the amount of \$5,000,000 which was reduced to \$1,000,000 in early 1990. The largest volume of foreign exchange transactions on behalf of BCCI Miami occurred during 1988 and 1989 and aggregated \$28,220,000. All such foreign exchange transactions appear to be normal business transactions. There have been no such transactions with BCCI Miami subsequent to Harch 31, 1990.

Our review of transactions in the personal accounts of selected BCCI officers and employees who were employed in BCCI's Washington office, and who had personal accounts with FABW in Washington, D.C., and our review of FABW account officers having customer responsibility for BCCI, disclosed that such accounts have not been used to facilitate large transfers of funds.

The review of mortgage loans serviced by First Advantage Mortgage Company disclosed no mortgage loans to employees of BCCI's Washington office.

The only references to the name Noriega in the records of FABN were to two demand deposit accounts for Jaime F. Noriega. Both of the demand deposit accounts were closed in 1985. We determined that the two demand deposit accounts had not been used to facilitate large transfers of funds. These accounts do not appear to be related to Manuel A. Noriega, though we cannot verify this fact.

C. PIRST AMERICAN BANK OF VIRGINIA

First American Bank of Virginia has no account relationships with BCCI. However, it has issued a letter of credit for \$378,081 in favor of the City of Alexandria, Virginia, relating to a letter of credit transaction with BCCI and FABNY.

We found 15 deposit relationships styled in the name Noriega, but none in the name Manuel A. Noriega. Five of these accounts remain open. These accounts have not been used to facilitate large transfers of funds. We also found three installment loans, the largest one being \$18,211, and four credit card accounts styled in the name Noriega. These accounts do not appear to be related to Manuel A. Noriega, though we cannot verify this fact. No loan was made or credit card issued to Manuel A. Noriega. None of these items appears suspicious or unusual.

D. FIRST AMERICAN BANK OF MARYLAND

First American Bank of Maryland has no account relationships with ${\tt BCCI.}$

The records of the bank contain one reference to the name Noriega. An Arthur Noriega paid off an installment loan in December 1985. This loan does not appear to be suspicious or unusual.

E. FIRST AMERICAN BANK OF GEORGIA

First American Bank of Georgia has two account relationships with BCCI. These accounts have minimal activity and appear to have had a legitimate business purpose.

First American Bank of Georgia has taken as collateral for a loan a \$3,000,000 letter of credit issued by BCCI London.

There was no references to the name Noriega in the customer files of First American Bank of Georgia.

F. FIRST AMBRICAN BANK OF PENSACOLA

The bank has no account relationship with BCCI. There were no references to the name Noreiga in the bank's customer files.

G. FIRST AMERICAN INTERNATIONAL BANK

The bank has no account relationship with BCCI. There were no references to the name Noreiga in the bank's customer files.

H. VALLEY FIDELITY BANK AND TRUST COMPANY

The bank has no account relationship with BCCI. There were no references to the name Noreiga in the bank's customer files.

III. CONCLUSION

Other than as set forth in the "Findings" section of this report, our extensive review disclosed no additional matter which, in our opinion, should be brought to your attention. We found no reason to believe that dealings with BCCI were not normal, legitimate, and conducted as arms-length business transactions. Nor have we found any reason to believe that any First American Bank was being used by BCCI, or its customers, to facilitate money laundering.

Very truly yours,

James E. Lewis
Senior Vice President
and Director of Audits

JEL:pj

FIRST AMERICAN METRO CORP.

LAWRENCE S. QUINN Senior Vice President

To: Bry

Bryan Jay Yolles

March 20, 1991

From:

Lawrence S. Quinn

Subject: FDIC Exam - FABV

As you are aware, the FDIC examiners have been reviewing the Virginia bank's compliance with the Bank Secrecy Act and Regulation O (loans to insiders) as part of the ongoing safety and soundness examination. The examiners have now completed their review of these areas and have indicated verbally that no violations were noted, and the bank is in full compliance in both areas. They were particularly complimentary of the bank's systems and procedures related to the Bank Secrecy Act and the identification and reporting of large currency transactions. Examiner Dave Dawson offered the following comments in this regard:

- The bank's policies and procedures were well documented and probably the best he had ever seen. He mentioned that he wanted to retain copies of our program manuals and internal policies and procedures as models, and that he might share these with other banks experiencing problems with compliance. He would do this on a no name basis since the manuals are not copyrighted.
- In his opinion, the bank is "squeaky clean" concerning money laundering issues. He was encouraged by this finding since he had been told to look very carefully at this area and find any improprieties that may exist. None were found.
- 3. The internal review procedures for quality control provided added assurances that information was reported properly to the IRS and was not dependent upon the knowledge and ability of individual tellers.

Mr. Dawson concluded by indicating that the regulators are moving completely away from detail testing and are concentrating more on bank systems and controls. Therefore, he was very pleased that the bank's systems were well documented and effective. As you know, we spent a good deal of time revising the Bank Secrecy Act Policy Manual to update it and make it consistent for all subsidiary banks. This amended version was just recently approved by all three Metro bank Boards.

The examiners expect to leave the bank by the end of this week, but will return in mid-to-late April to complete the remaining portions of the compliance examination. I will keep you informed of their progress and comments.

UNITED STATES OF AMERICA

Congress of the United States

To_	Khalid A.	Awan			
10_	12244 SW 9	5th Street			
	Miami, Flo	rida	, Greeti	······	
Pur	suant to law	ful authority, Y	OU ARE HERI	RBY COMMANDE	D to
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To _	the United	States Marshal	s Service or	any other aut	horized
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		Lord one thous	and nine hund	red and eighty-	eight
		1. inc	_		
		Martana 4	Fo	reign Relation	s



For release 30th January

Newspaper articles have appeared recently suggesting that Bank of America is contemplating divesting its shareholding in BCCI.

These reports have appeared following a recent reduction in Bank of America's holding in BCCI following a rights issue in which Bank of America did not participate.

Bank of America is currently increasing its direct presence in the Middle East and to have increased its capital commitment in a bank in which Bank of America had less than a majority holding or management control would be inconsistent with current Bank of America strategy.

Bank of America does in fact have an arrangement with one of the other major BCCI shareholders which provides for the acquisition of Bank of America's stake over the next $2\frac{1}{2}$ years.

This development takes place following the continuously evolving patterns in the world's financial markets which have led both Bank of America and BCCI to develope new strategies. BCCI is now a fully fledged global bank and is expected to have a net worth as at December 31, 1977 of over \$100 million with assets slightly in excess of \$2 billion.

Bank of America intends to retain a shareholding in BCCI for the foreseeable future and the close co-operation that has developed between the two banks will be maintained.

BANKOFAMERICA U.S.

For release	

. SAN FRANCISCO, 1st September, 1978

Bank of America National Trust and Savings Association feels that in order to dispel any misunderstanding, it is necessary to address the Financial Times report which appeared in yesterday's edition of the newspaper (August 31, 1978).

The specific points referred to in that article, attributed to Mr Douglas Kraus, a lawyer acting for Financial General Bank Shares, appear to be taken from Bank of America credit review files.

Bank credit review files are analytical, conservative, and closely controlled since they contain highly sensitive, privileged, and confidential information relating to the relevant relationship and represent the judgment at the time of the bank officer making the review.

It is Bank of America's present opinion that ECCI's loan reserve has been established in accordance with prudent risk management practices.

Bank of America has maintained representation on the board of BCCI since the inception of its relationship.

Bank of America supports the increasingly tighter administrativ controls which BCCI management has adopted.

Thursday's report suggests that the matters contained in Mr Kraus's statements contributed to the Bank of America's decision to reduce and eventually sell its BCCI shareholdings. As Bank of America has heretofore publicly announced, its reasons for that action are related solely to changes in market conditions, particularly in the Middle East, which make it appropriate for both institutions - the bank and BCCI - to discontinue the relationship.

Bank of America's involvement in the Financial General Bank Shares suit arises from a motion to compel production of documents in the bank's possession, and Bank of America will pursue its standard practice of responding to that motion in the line with applicable law and with guidance of legal counsel.

Description of Shareholder Contact

During their appearance before the House Banking Committee, Messrs. Clifford and Altman explained that although BCCI served to facilitate communications with CCAH's various shareholders (whose composition varied following the acquisition, and who were scattered throughout the Persian Gulf), Messrs. Clifford and Altman also had direct contact with the shareholders. Some of the contact occurred at meetings; additionally, there were direct written communications and telephone calls.

Messrs. Clifford and Altman's interaction with the shareholders commenced in 1978 when their law firm was retained to represent Sheikh Kamal Adham, Mr. Abdullah Darwaish,* Sheikh Mohammed bin Zaied al Nahyan, Mr. Faisal Saul al Fulaij, Sheikh Sultan bin Zaied al Nahyan and others in the takeover litigation. Messrs. Clifford and Altman met with Mr. Darwiash in connection with the litigation. In the course of the litigation, Sheikh Adham, Mr. Darwaish and Mr. Fulaij all testified at depositions in the litigation. Messrs. Clifford and Altman met with Sheikh Adham on numerous occasions during the ensuing years.

^{*} Mr. Darwaish had purchased stock on Sheikh Mohammed's behalf because Sheikh Mohammed was a minor at the time.

After the litigation was settled in July 1980, an application was filed with the Federal Reserve Board for approval to acquire Financial General Bankshares. In connection with this application, a hearing was held in Washington, D.C. before the Board of Governors of the Federal Reserve in April 1981 when Sheikh Adham, Mr. Fulaij and two new shareholders — El Sayed el Gohary and Abdul Raouf Khalil — appeared and testified.

After regulatory approval for the acquisition was obtained, Messrs. Clifford and Altman continued to have regular personal contact with Sheikh Adham and his associate, Mr. Gohary.* Over the years, there was also infrequent, personal contact with Mr. Fulaij and representatives of the Abu Dhabi interests — Sheikh Zaied bin Sultan al Nahyan and the Abu Dhabi Investment Authority. Further, in September 1986, one of the key shareholders, Sheikh Khalid bin Mahfouz, visited the United States to inspect his investment and meet with Messrs. Clifford and Altman.

In addition to these contacts, Messrs. Clifford and Altman received written communications from the shareholders or their representatives -- Stock Holding Company, Crescent

^{*} Mr. Gohary later became a Saudi Arabian citizen, and accordingly changed the spelling of his last name to "Jawhary."

Holding Company, Mashriq Holding Company, Sheikh Humaid bin Rashid al Naomi, Ali Mohammed Shorafa, Mohammed Qabazard Gulf Investment Real Estate Company, and Real Estate Development Company — pertaining to their investment. These communications took the form of personal correspondence, as well as CCAH related material such as proxies, letters of acceptance for stock issues, powers of attorney, share transfer deeds, and waivers of preemptive rights regarding additional share offerings.

Finally, there was telephone contact with various of the First American shareholders, including Sheikh Adham, Mr. Jawhary, Mr. Fulaij, and others.



SKADDEN, ARPS, SLATE, MEAGHER & FLOM

1440 NEW YORK AVENUE, N.W. WASHINGTON, D.C. 20005-2107

(202) 371-7000

March 13, 1992

BOSTON BRUSSELS HONG KONG LONDON LOS ANGELES LOS ANGELES
NEW YORK
SAN FRANCISCO
SYDNEY
TOKYO
TORONTO WILMINGTON

BY HAND

FAX: (202) 393-5760

DIRECT DIAL (202) 371

> The Honorable Henry B. Gonzales Chairman House Banking, Finance and Urban Affairs 2413 Rayburn House Office Building Washington, D.C. 20515

> > Re: Messrs. Clifford and Altman

Dear Chairman Gonzales:

Enclosed please find copies of correspondence between Messrs. Clifford and Altman and the CCAH share-holders. These materials are responsive to Mr. Slattery's request for examples of direct contacts between Messrs. Clifford and Altman and the CCAH shareholders. See Transcript of House Committee on Banking Finance and Urban Affairs Hearing (September 11, 1991) at 310-11. We have included both correspondence directed to and received from the shareholders that could be readily identified from the voluminous files relating to these matters.

We trust these materials will satisfy your inquiry.

With best regards.

Sincerely,

Robert S. Bennett CallRacks

Enclosures

Bredit and Commerce American Holdings, N.Y. Pietermaai 6, Willemetad Buração, Vetherlands Antilles

July 27, 1987

Khamis Olayan Local and Arab Investment Abu Dhabi Investment Authority P. O. Box 3600 Abu Dhabi, U.A.E.

Dear Mr. Olayan:

We are in receipt of your letter dated July 14, 1987.

Please be advised that the 4,779 right shares issued in July 1986 were forwarded to the Bank of Credit and Commerce International, 100 Leadenhall Street, London, England EC3A 3AD.

Kindly contact Mr. Imran M.A. Imam at BCCI with respect to these shares.

Sincerely,

Robert A. Altman Managing Director and Secretary CABLE CLINET

*ELEPHONE

Cliffird & Warnko Attornys and Counsdless at Law 815 Connecticul Arenus Washington, D. C. 20006

ROBERT A ALTMAN

DIRECT LINE (2021 626-42)

June 26, 1984

His Excellency Sheikh Kamal Adham 77 Eaton Square London, England ESWI

Dear Excellency:

I enclose for your information a letter that Mr. Clifford received today from the Saudi Arabian Ambasssdor. The response to our inquiry is deeply disappointing. We would greatly appreciate any advice you could give, or assistance you might render in an effort to remedy this situation.

Warmest regards.

Sincerely,

Robert A. Altman

Enclosure

وزود الماريخة كَوْالِوَّالْمُلِكِينًا لِمُعَنَّدُونِ السَّمِينِ فَوْضِينَ فَلِينِ الْمُعَنِّدُ السَّمِينِ فَلِينَ السَّمِينِ

077-CE 07 THE AMBASSADOR ROYAL EMBASSY OF SAUDI ARABIA WASHINGTON, D. C.

June 22, 1984

Mr. Clark M. Clifford Chairman of the Board First American Bank Building 15th and H Street, NW Washington, D.C. 20005

Dear Mr. Clifford:

I would like to acknowledge having received your letter of May 23, 1984 and thank you for your offer to provide the Embassy with banking services.

We certainly appreciate and recognize the services that are offered by the 1st American Bank but we are already affiliated with another Washington banking facility. Should we need additional banking services in the future, we will be happy to work with you.

Sincerely,

Bandar Bin Sultan

/1h



Clark M. Clifford Chairman of the Soard

April 15, 1985

His Excellency Shaikh Kamal Adham 77 Eaton Square London E.S.W. 1, England

Your Excellency:

We are pleased to inform you that your kind assistance in obtaining the Saudi Educational Mission's account has resulted in a \$2.2 million deposit as a start. A larger deposit is expected within the next faw weeks. Originally, we expected this account to result in a \$200 million annual relationship, but a decision was taken by the official of the Ministry of Higher Education to create several regional offices in the U.S. to handle the students' scholarship payments. As a result, First American Bank will be handling the Washington office's account with about a \$60 million budget. We were informed that the Washington office may be increasing in size and at some future time the whole relationship could be centralized in Washington:

During our meeting with His Royal Highness Prince Bandar Bin Sultan, in July 1984, we had expressed our interest in providing our banking services to the Defense Offices in Washington. His Royal Highness did not object to the idea, but indicated that he preferred to discuss that account after we completed the establishment of the Educational Mission's account. Therefore, Your Excellency, we are again calling on you for your assistance in this matter.

We would be grateful for any help you might provide in arranging for a meeting with Prince Bandar to suggest that First American Bank be considered to handle the Defense Offices account. It is believed that a positive recommendation with the officials of the Ministry of Defense in Riyadh on behalf of First American Bank would be productive.

The Saudi Defense Offices in Washington presently maintain accounts with one of our competitors, Riggs National Bank. These substantial account relationships consist of:

His Excellency Shaikh Kamal Adham April 15, 1985 Page Two

- 1. Contracts and military purchases accounts, and
- A total of 11 general accounts for the various military branches of the Saudi Ministry of Defense; the accounts are maintained to pay officers and employees salaries, training and treatments.

First American Bank possesses certain features that would make it an attractive choice for usage by the Saudi Defense Offices in Washington. The following points are noted:

- First American Bank is owned by Middle East investors, including an important group from Saudi Arabia.
- Our unique interstate network of offices are located throughout the eastern part of the United States where most of the training and shipping take place.
- Our bank is experienced in providing bank services to the military offices of several embassies in Washington, including making payments and servicing payroll accounts of officers and trainees.
- Mr. Kayid Shawish, a Vice President in our Washington office, is well known to much of the Saudi embassy staff. He speaks Arabic and spent most of his life in the Gulf countries.
- 5. Our size is impressive we are well over \$4.5 billion in assets and have 112 years of banking experience. And we are an exceedingly well capitalized institution, offering comfort and security to our customers.

Thank you very much for your consideration of this matter. I send best personal wishes and my sincere respect.

Faithfully yours,

Clark M. Clifford Chairman of the Board

bec. h.v. line

Bredit and Commerce American Holdings, N.Y. Pictormaai 6, Willomstad Curacac, Notherlands Antills

August 30, 1988

Windrush Limited
Taynton Investments Limited
Sarsden Holdings Limited
Shipton Investments Limited
Bleddington Investments Limited
("the Companies")
c/o 31 Curzon Street
London W1Y 7AE
England

Burford Investments Limited ("Burford") c/o Curzon Street London W1Y 7AE England

Re: Transfer of Shares

Dear Sirs:

With reference to your letter dated 29th day of August 1988, we hereby confirm that upon receipt of the original transfer deeds and share certificates nos. 74-78 and 94-98 for the shares of Credit and Commerce American Holdings, N.V. stock listed below, we shall forthwith arrange to reflect in our records the transfer from the Companies to Burford.

Name of Previous Shareholder	No. of Shares
Windrush Limited	5,368
Taynton Investments Limited	5,368
Sarsden Holdings Limited	5,367
Shipton Investments Limited	5,367
Bleddington Investments Limited	<u>5.367</u>
Total	26,837

Yours faithfully,

DO NOT COPY

CREDIT AND COMMERCE AMERICAN HOLDINGS, N.V.

Robert A. Altman, Secretary

SAYED JAWHARY

7 November 1989

Mr Clark M Clifford Chairman of the Board First American Bankshares Inc 15th and H Streets NW WASHINGTON DC 20005 USA

Dear Mr Clifford

I received your letter dated October 10, 1989 and the enclosed communication with Goldman Sach.

I believe that you should proceed to look into the matter and would appreciate if you inform me of any significant development in this connection.

Yours sincerely

SAYED JAWHARX

November 26, 1989

Mr Clark M Clifford Chairman of the Board First American Bankshares Inc. 15th and H Streets NW Washington DC 20005 U.S.A.

Dear Mr Clifford,

Thank you for your letter dated October 10, 1989 and the copy of letter from Coldman Sach addressed to you.

I feel that you should proceed to look into the matter and would appreciate if you inform me of any significant development in this connection.

Yours sincerely,

Ali Mohammad Shorafa

8 December 1989

Mr. Clark M. Clifford Chairman of the Board First American Bankshares Inc. 15th and H Streets NW Washington DC 20005 U.S.A. My Ottomin

Dear Mr. Clifford,

Thank you for your letter dated October 10, 1989 and the copy of the letter from Goldman Sach addressed to you.

We feel that you should proceed to look into the matter and would appreciate if you inform us of any significant development in this connection.

Yours sincerely,

BUFORD INVESTMENT LIMITED

ZHR Kalilon

ف إلله أنتخبز أزي

Private Department

for H.H. SHAIKH ZAIED BIN SULTAN ALNAHYAN

P. C. Bon 77 . Mbu Dhale U. S. 8.



الدازة الحامة حو الشيخ زايد بن سلطان أل نهيان س. ب ۷۷ ساوشی

Ref: CO/019/89

Date: . 18 December 1989

Mr. Clark M. Clifford Chairman of the Board First American Bankshares Inc. 15th and H Streets NW Washington DC 20005 U.S.A.

Dear Mr. Clifford,

We have received your letter dated October 10, 1989 together with a copy of the letter from Goldman Sach to yo

We believe that you should proceed to look into the matter and advise us of any significant development in this conne

Yours sincerely,

Fir Khalifa Bin Zaied Al Nahyan

FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD Chairman of the Board

August 8, 1990

Personal & Confidential

H.E. Sheikh Khalifa bin Zaied al Nahyan Royal Palace Abu Dhabi, U.A.E.

Your Excellency:

As Chairman of the Board of First American Bankshares, I have the responsibility of keeping our shareholders fully informed regarding important developments at the Company. For some eight years, we have distributed audited financial statements and Annual Reports to our shareholders and, from time to time, we have given personal briefings and progress reports. In addition, we have relied in the past, at your request, on your investment adviser, Mr. Agha Hasan Abedi, who assisted for years as a communications link for us with First American's shareholders.

Recently, a meeting was held in London with your fellow shareholder, H.E. Sheikh Kamal Adham, at which the subject of our communicating with our shareholders was discussed. As you know. Mr. Abedi has been unable for some time to serve you in his former capacity because of his continuing poor health. Sheikh Kamal Adham believes a new reporting arrangement should be established to continue to provide shareholders with the proper information about developments at First American. It is believed that more comprehensive reporting efforts are indicated because of the current pressures and financial developments affecting the U.S. banking industry in general, and First American particularly.

First American remains a unique and valuable commercial banking franchise and we wish to make certain that our shareholders continue to be adequately informed about important developments at the Company. This is particularly true in light of certain serious problems that confront the Company, as well as certain unique opportunities.

- 2 -

H.E. Sheikh Kamal Adham has generously agreed to assume responsibility as a communications link for us with the First American investors. To this end, we plan to have quarterly briefings for His Excellency in London to report on First American matters. We shall notify each shareholder in advance of such meetings so that each can arrange to attend personally if he wishes, or to send a representative. We shall send you a copy of the quarterly report we give in London in case you (or a representative) are unable or prefer not to attend the briefing. Any important matters that arise between quarterly briefings shall be presented to Sheikh Kamal Adham in person, if possible, with written notice to all shareholders.

We will, of course, continue to provide shareholders with the First American Annual Reports and audited financial statements as we have in the past. And we are always available by telephone or in person to discuss matters relating to First American of interest to you. We believe the combination of such written communications and the quarterly briefings will continue to keep you fully informed regarding the Company and its progress. An identical letter on this matter is being sent to each of your fellow shareholders.

I send my sincere personal regards.

Cordially yours,

Clark M. Clifford

11/11/A FIRST AMERICAN BANKSHARES. ...C.

CLARK M. CLIFFORD Chairman of the Board

October 15, 1990

Mr. Atique Azad Investment Manager Private Department for H.H. Sheikh Zaied bin Sultan Al Nahyan P.O. Box 77 Abu Dhabi, U.A.E.

Dear Mr. Azad:

We are in receipt of your telefax message of October 15, 1990.

We are pleased to confirm with you that the forth-coming meeting with the First American shareholders will occur on Tuesday, October 23, at 2:00 p.m. at:

The Claridge Hotel Brook Street Mayfair London, England W1 (near Grosvenor Square)

Kindly consult with the hotel manager upon arrival regarding the location for the meeting within the hotel.

We look forward to meeting with you on Tuesday, October 23. We are available to continue with our discussions on October 24 as needed.

Cordially yours,

Clark M. Clifford

CONFIDENTIAL

15th and H Streets NW Washington, DC 20005 (202) 383-1400

1511A FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD Chairman of the Board

MEMORANDUM

Shareholders of Credit and Commerce American Holdings, N.V. To:

Clark M. Clifford CWC From:

Date: November 2, 1990

RE: Capital Requirements - First American Bankshares, Inc.

I am enclosing a letter received today from Arthur Anderson & Company, First American Bankshares' independent auditors, confirming that the Company needs \$125,000,000 of additional equity capital for 1991, with an immediate advance of \$30,000,000 before the end of November.

The additional capital is intended to protect the shareholders' investment during the economic downturn now being experienced throughout the banking industry in the United States. The capital call thus reflects discussions with federal bank regulators and our financial team.

The requested funds would protect the enormous value that has been created in First American during the past eight years. As you will recall, we received an opening bid of one billion dollars for First American less than 6 months ago, and we no doubt could have negotiated a substantially higher price had the shareholders directed us to do so. For reasons earlier provided, we are requesting additional capital immediately to safeguard your investment. investment.

Mr. Robert Altman and I will be pleased to provide you any other information you may request, and stand ready to meet at any time if you feel that would be helpful to you.



1517 FIRST AMERICAN CORPORATION

ROBERT A. ALTMAN President

MEMORANDUM

To:

Atique Azad

Director Investments Private Department

H.H. The President of U.A.E.

From:

Robert A. Altman

Date: October 31, 1990

This is to provide you with a current status report regarding financial matters at First American. We have been in continuing discussions with Federal Bank Regulators, and through these efforts, have received loan classifications for October which would avoid any default under our Senior Note Agreement this month. Accordingly, we have, with considerable difficulty, gained thirty (30) days to arrange the needed capital, and prevent the serious consequences of a violation of our debt covenants. The problem, however, remains serious and immediate.

At a meeting today with representatives of the Office of the Comptroller of the Currency, we were pressed for a report from First American's shareholders regarding the request for capital. The OCC considers this to be a matter of importance and urgency, and I would appreciate anything you can do to facilitate favorable consideration of the matter there. Again, our objective is to protect the enormous value of First American which has been created. We remain available to meet with you and others, or to provide any additional information you may need.

CABLE CLINEY TELEX 840886 CLEY

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Clifferd & Warnko Stlomoys and Counsellors at Law 815 Connecticut Shonus Washington, I. 6: 20006

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THANK YOU.



1511A FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD Chairman of the Board

MEMORANDUM

To: Shareholders of Credit and Commerce American Holdings, N.V.

From: Clark M. Clifford Omr.

Date: November 8, 1990

Re: Special Board Meeting with Federal Bank Regulatory

Authorities

This memorandum is written to advise you that a special meeting of the Board of Directors of First American Bankshares and its U.S. parent, First American Corporation, was held on Tuesday, November 6, at the request of the Federal Reserve Board. In addition to representatives of the Federal Reserve, the meeting was attended by staff members of the Office of Comptroller of the Currency and the Federal Deposit Insurance Corporation. The purpose of the meeting was to discuss the regulatory examinations of First American and its subsidiary. banks.

During the course of this important meeting, the regulatory agencies focused on our efforts to obtain additional capital for First American from the shareholders. It was emphasized to the Directors that bank shareholders are expected to be a source of financial strength to the organization and that the current economic environment made capital investments mandatory now for First American (and for our competitors). We responded that the matter of additional capital was under consideration in the Middle East and we would report to the regulators as soon as decisions were reached. We were asked to convey to the shareholders the importance of addressing this matter at their earliest convenience.

In this regard, certain First American shareholders recently inquired about the ability to revive discussions we had last Spring with other major banks regarding the sale or

- 2 -

merger of First American. As you recall, our shareholders did not wish to pursue such a transaction at that time. Current market conditions, however, make any such deal impossible at present. Such a transaction would necessarily involve payment with marketable stock, not cash. In this regard, I attach for your information a chart which reveals the sharp decline in market value of bank stocks during the past year. Such shares now trade at a fraction of book value when a short while ago they were trading at multiples of 1.5 to 2 times book (for non-control blocks). Thus, market conditions, as well as regulatory factors, preclude a deal going forward now.

You, of course, will understand that the very substantial, inherent value of this unique franchise remains despite the inability to consummate a merger or sale under present market conditions. It is noted that the total shareholder cash investment in First American to date is approximately \$600 million, and, of that amount, approximately one-third was invested only in the last few years. Yet, less than six months ago, we had an opening offer from a major U.S. bank to acquire First American in a transaction which would likely have more than doubled the amount the shareholders have invested to date. And, we believe it is possible to enhance further the return on our shareholders' investment:

We are confident that the market value of this Company can be realized when the market strengthens and we urge favorable consideration of senior management's proposal for additional capital to protect the enormous value of this franchise that has been created for shareholders. We remain available to meet with you or to answer any questions you may have about these matters.

Attachment

Major U.S. Banks Market Value as of December 31, 1989 and November 2, 1990

							4235211	200 P 100 P
	•	Market Value/share	Market Value/share	Book Value/share	Market	Value @ 12/31/89	Value @ 11/02/90	11/2/90
		Dec 31, 1989	Nov 2, 1990	June 30,1990	Book(%)	(\$Millions)	(\$Millions)	% Change
Manuf Hanover	Ž		17.63	41.15	42.8	2,317	1,259	-45.7%
Citicoro	Ž		12.63	25.56	49.4	9,377	4,157	-55.7%
Chemical	Ž		11.63	34.18	34.0	2,441	1,054	-56.8%
Chase Manhattan	Ž	34.75	10.63	34.68	30.6	3,916	1,346	-65.6%
Regional				-				
Ricos	2		9.13	24.72	36.9	293	126	-57.1%
CNIN	3		4.50	16.12	27.9	1,869	382	-79.5%
CLS/Souran	S	30.83	15.88	22.48	70.6	4,160	2,107	-49.3%
Signet	\$		10.13	28.43	35.6	857	267	-68.9%
Dominion	*		8.38	15.96	52.5	717	316	-56.0%
Dometh	E		15.63	27.52	56.8	2,279	216	-57.1%
Conthood			4.63	20.89	22.1	643	154	-76.0%
Counted A	3		6.25	26.18	23.9	1,353	424	-66.4%
Champing	S		5.63	18.97	29.7	1,481	412	-72.2%
Sugarina Book of Naw England			1.13	5.01	22.5	650	78	-88.0%
Dalin of New Cirpies	2		19.88	28.77	69.1	4,682	2,024	-56.8%
			15.38	20.22	76.0	2,210	1,651	-25.3%
			17.50	29.06	60.2	3,902	1,656	-57.6%
			90.0	10.62	55.0	2845	1 120	-60 6%
Fleet/Norstar	Z	26.13	10.23	70.01	2.00	F1012		3

8 202 457 6315 PB&B WASH D.C. DEI 26 '90 14:15 DPAHH INVET DEPT ABU DHABI 12/26/90 11:37

002 P 2/2

P.2/3

Private Department

let I. S. SHAKE SAYED MI SULTAF AL-HABYAR

9. 0. Am , 77. Alla Bladi U. Sl. 8.

Tal. 651600

بسساندازمن ارحيه

الدالسيسرة الفامسسية

لصاعب السبو الشيخ زاسد بن سلطان آل نبيان

ص.ب: ۷۷ ـ ابوظبــي

7017. : -

December 26, 1990

BY TELEFACSIMLE

Mr. Robert Altman / J. Griffin Leeher c/o Clifford & Warnke \$15, Connecticut Avenue , N.W. Washington , D.C. 20008

Dear Mr. Altman,

Re: Convertible Preferred Stock Offering of CCAH

Further to the proposed convertible preferred stock offering of CCAH and the shareholders meeting that is to be held on December 28, 1990.

I, as representatives of the shareholders H.H. Shekh Zayed bin Sultan Al Nahyan and H.H. Shekh Khalifa bin Zayed Al Nahyan would request you to delay the shareholders meeting of CCAH until such time as I and my advisors have had the opportunity to properly analyze the business and bank regulatory aspects of the proposed amendments to the CCAH corporate charter and the issuence of the preferred shares.

I would like to take this opportunity to request you to send a copy of all communication regarding CCAH to Patton , Boggs & Blow , Attn : Kirk Wade / Middleton A . Martin at the same time that such communication is sent to us .

Please confirm receipt of this letter by return fax.

Sincerely,

Ghenim Feris Al Mazrul

CABLE SLINEY

306-910

Clifford & Warnke
Attornoos and Counsellors at Law
\$15 Connecticut Avenue
Washington, I.B. 20006

Via Telefax

December 27, 1990

MEMORANDUM

To:

Mr. Ghanim Faris Al Mazrui Private Department of

HH Sheikh Zayed

From:

Robert A. Altman J. Griffin Lesher

Re:

CCAH convertible preferred stock offering

In reference to Mr. J. Kirk Wade's letter of December 24 which was received while we were traveling, we understand that certain financial and legal materials are now being requested in addition to those provided by letter dated December 19. Please be advised that we will attempt to provide such readily available information that is responsive to this latest request as expeditiously as possible.

We are also in receipt of your December 26 telefax regarding the CCAH annual general meeting of shareholders. We understand you wish to have the meeting delayed pending review of the proposed amendments to the CCAH Articles and issuance of the convertible preferred shares. We are mystified by this request given the fact that both HH Sheikh Zayed bin Sultan Al Nahyan and HH Sheikh Khalifa bin Zayed Al Nahyan executed Authorizations dated December 5, 1990, instructing the CCAH board to proceed to obtain the requisite shareholder approval for issuance of the convertible preferred shares, and further agreeing to execute proxies in favor of resolutions to amend the CCAH Articles to provide for such shares and promptly to subscribe to at least their pro rata share of the proposed Rights Offering.

These Authorizations were an integral part of the issuance earlier this month of the convertible debentures totaling U.S. \$30 million, and were relied upon by the CCAH

directors as well as the other CCAH shareholders who subscribed to such debentures. Moreover, the information contained in such Authorizations has been provided to the bank regulatory authorities during discussions regarding the program to raise additional capital through issuance of convertible preferred shares. This matter remains important to both regulators and lenders, and we are thus concerned by the implications of any further delay.

As indicated in the December 12 memorandum to CCAH shareholders, the annual meeting was scheduled for last Friday, December 21. Due to the absence of the requisite 75% necessary to adopt the amendments to the CCAH Articles, the meeting was postponed until a follow-up meeting which is scheduled for Wednesday, January 2, 1991, at 2:00 pm.

It is important that we proceed without another postponement with such shareholder approval in accordance with the executed Authorizations as well as the proxies received from the other shareholders each of whom has indicated his support for the proposed corporate amendments and issuance of the convertible preferred shares per the documentation accompanying the December 12 memorandum to CCAH shareholders.

cc: Mr. Atique Azad Mr. Middleton A. Martin

Mr. J. Kirk Wade

011-9711-651435

GABLE CLINET TELEX MODBO CLEY 7ELEPHONE

Cliffird & Warnko Allonoys and Counsillors at Law 815 Connecticut Shunus Washungton, D. C. 20006

Privileged & Confidential

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DATE .	January	25, 1991		TIME	7:00 pm	
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FROM:	Robert A	. Altman				
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THANK	YOU.					

Gredit and Commerce American Holdings, V.Y. Julianaplein Vo. 22 Curacao, Vetherlands Antilles

MEMORANDUM

TO: CCAH Shareholders

DATE: February 20, 1991

RE: Federal Reserve Investigation

As we earlier advised you by memorandum dated January 29, 1991, the Board of Governors of the Federal Reserve System recently commenced an investigation into the relationship between this Company and Bank of Credit and Commerce International ("BCCI") and its affiliates, including issues relating to the ownership of the shares of CCAH. The Federal Reserve's inquiry stems from reports that various CCAH shareholders may have private lending and/or other financial arrangements with BCCI that effectively transfers ownership or control of CCAH stock (pledged as collateral on such loans) to BCCI.

This governmental proceeding is a serious matter. The Federal Reserve will wish to determine whether representations made to the Board in connection with the acquisition of the Company in 1982 are true and correct in every respect. Additionally, the Board now needs to be apprised of any existing arrangement a CCAH shareholder may have with BCCI that relates in any way to the ownership of CCAH stock, including information concerning outstanding loans where CCAH stock is pledged as collateral. Any loans that are non-performing or in default are of particular interest.

While the investigation is being conducted, the Directors of the Company approved an agreement with the Federal Reserve that First American will only conduct banking transactions with BCCI in the ordinary course of business. This, of course, has always been the practice of the Company,

and thus should not affect our business operations in any manner.

If the Federal Reserve were to conclude that BCCI has acquired effective control over CCAH shares owned by any of the shareholders, various legal actions may be taken with respect to BCCI and/or the CCAH shareholders who are involved, potentially including the forced sale of those shares of CCAH stock. Depending on the facts that are developed, it is possible that a change in control of the Company may result. Accordingly, it is important you be aware of this inquiry and the implications it may have both for the Company and your personal investment in CCAH. You may wish to consult with your personal legal counsel in order that your personal rights and interests are protected.

Together with one of our attorneys, we shall be attempting to meet with CCAH shareholders or their representatives in the near future. We shall focus initially on the principal shareholders of CCAH. We need information to permit the Company to evaluate the merits of the allegations that have been made. Accordingly, we would like to inquire of you as to all matters described in this memorandum, and would appreciate the opportunity to review any documents you or your representative may have that relate to these matters.

We will request that you agree to waive any legal bank secrecy protections which may govern your financial dealings. You should be aware that any information provided to the Company will not be privileged, and may be transmitted to the Federal Reserve or other interested governmental agencies. It is essential that the Company obtains candid, accurate responses with respect to this matter, and we request your assistance, understanding, and cooperation.

Credit and Commerce American Holdings, N.Y. Julianaplein No. 22 Curacao, Netherlands Antilles

MEMORANDUM

TO: H.E. Sheikh Khalid bin Salim bin Mahfouz

FROM: Managing Directors

DATE: May 31, 1991

A number of very serious questions have been raised concerning your investment in Credit and Commerce American Holdings (CCAH), the parent of First American Bankshares. As you know, your investment is registered under Burford Investments Ltd. The issues relating to this investment may have important legal and financial implications for Your Excellency and it is essential that these matters be addressed immediately.

There will be a meeting of the CCAH shareholders on June 7, 1991 in Cairo which has been scheduled at the request of H.E. Sheikh Kamal Adham. The Abu Dhabi shareholder interests are also expected to attend. It is of extreme importance that you attend this meeting or send a personal representative on your behalf who is familiar with these matters.

Kindly send us a return fax (202-659-0065) to indicate whether Your Excellency will be able to attend or who will be joining us on your behalf.

For your information, the attached notice is being circulated to all CCAH shareholders.

Thank you for your kind attention to this matter.

VICE-CHAIRNAN

BARCLAYS BANK LIMITED 54 LOMBARD STREET LONDON, EC3P 3AE

22nd April 1981

Mr. Robert Altman, Clifford & Warnke, 815 Connecticut Avenue, WASHINGTON D.C. 20006, U.S.A.

Dear Sir.

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham.

We are pleased to advise you that H.E. Sheikh Kamal Adham is one of the most prominent citizens in Saudi Arabia. He is highly regarded and enjoys a first class reputation in business and financial circles.

Sheikh Kamal has important financial resources at his disposal and possesses very substantial investments in Saudi Arabia and abroad, in real estate, banking, and in trading and industrial companies. There is no doubt that he has the capacity to make substantial financial commitments.

Yours faithfully,

inian Water

J.P.G. WATHEN

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED SECOND CONGRESS 2129 RAYBURN HOUSE OFFICE BUILDING WASHINGTON, DC 20515

February 27, 1992

(200) 226-4347

Mr. Robert S. Bennett Carl S. Rauh Skadden, Arps, Slate, Meagher & Flom 1440 New York Avenue, N.W. Washington, D.C. 20005-2107

Dear Messrs. Bennett & Rauh:

The Committee is disappointed with your response to our February 14, 1992 request for information that Mr. Clifford said that he would provide this Committee regarding conflicts of interests that he might have faced. We find the information that you provided non-responsive to our request.

Once again, the Committee still finds the necessity to ask for the information that Mr. Clifford told this Committee he would furnish regarding conflicts of interests. The Committee disagrees with your interpretation of the transcript. Mr. Clifford, on page 131 of the transcript, clearly indicates that there is legal memoranda that he is aware of concerning the possible conflict of interests that could arise from his dual role as counsel and Member of the Board/CEO of CCAH/First American.

The Committee insists that Mr. Clifford provide this memoranda. As in our previous request, this request includes any legal memoranda written by Mr. Clifford or anyone else under any capacity at any time regarding the possible conflict of interests the Mr. Clifford faced. This includes but is not limited to:

- any memoranda written by Mr. Clifford or anyone else under any capacity with BCCI or any of its affiliates; any memoranda written by Mr. Clifford or anyone else under any capacity with CCAH, N.V.; 1)
- 21
- any memoranda written by Mr. Clifford or anyone else under any capacity with CCAI, N.B.; any memoranda written by Mr. Clifford or anyone else under 3)
- 4) any capacity with First American Corporation; any memoranda written by Mr. Clifford or anyone else under
- 5) any capacity with First American Bankshares;

6)

any memoranda written by Mr. Clifford or anyone else under any capacity with any of First American affiliates; any memoranda written by Mr. Clifford or anyone else under any capacity with Clifford & Warnke, or any other law firm in which Mr. Clifford worked; 7)

any memoranda written by Mr. Clifford or anyone else under any capacity with any other entity; 8)

regarding Mr. Clifford's role with any of these entities and any possible conflicts of interests by Mr. Clifford. This request is not limited to Mr. Clifford's role at Clifford & Warnke. To be clear, the Committee is requesting any memoranda written by anyone regarding Mr. Clifford's possible conflict of interests.

If it is Mr. Clifford's claim that such memoranda does not If it is Mr. Clifford's claim that such memoranda does not exist, the Committee requests that Mr. Clifford certify this by written correspondence. The Committee would like to receive from Mr. Clifford a document that contains the following statement signed by Mr. Clifford: "I, Clark Clifford, declare that the documents that I testified I would furnish regarding possible conflicts of interests do not exist. I am not aware that such memoranda was ever prepared by anyone." Further, the Committee would like an explanation from Mr. Clifford as to what he was referring to in the transprint when he stated that such documents referring to in the transcript when he stated that such documents or memoranda exist.

Finally, the Committee again requests that you furnish a list and a copy of all correspondence that Mr. Altman and/or Mr. Clifford sent to any of the CCAH shareholders. This list and the copies of the letters will be responsive to the request by Mr. Slattery that Mr. Altman provide for the record a list of those times that Mr. Altman and Mr. Clifford dealt directly with the CCAH shareholders.

We expect you to furnish this information by close of business March 5, 1992.

2007

SKADDEN, ARPS, SLATE, MEAGHER & FLAMORIVED

1440 NEW YORK AVENUE, N.W. WASHINGTON, D.C. 20005-2107

(202) 371-7000

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Benking, Finance & Littern Affaire Landing

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NEW YORK
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SYDNEY
TOKYO

FAX: (202) 393-5760 DIRECT DIAL (202) 371-

March 4, 1992

BY HAND

The Honorable Henry B. Gonzalez Chairman House Banking, Finance and Urban Affairs 2413 Rayburn House Office Building Washington, D. C. 20515

Re: Messrs. Clifford and Altman

Dear Chairman Gonzalez:

Enclosed in response to your letter to us of February 27, 1992, is a letter written to you by Clark M. Clifford.

Very truly yours,

Adut & Benett
Robert S. Bennett

Carl & Rank Carl S. Rauh

Enclosure

Telefax (202) 658-0065 (202) 785-5833 Telephone (202) 828-4200

Clark M. Clifford Attornoy and Counsollor at Law 815 Connecticut Avenus Washington, D.C. 20006

Direct Line (202) 828-4269

March 4, 1992

Honorable Henry B. Gonzalez Chairman, House Banking, Finance and Urban Affairs Committee 2413 Rayburn House Office Building Washington, D. C. 20515

Dear Chairman Gonzalez:

I am writing in response to your letter of February 27, 1992 addressed to my counsel.

During my testimony on September 11, 1991, I was questioned by you regarding the possibility of any conflicts existing in our representation of some of the parties involved. On three separate occasions during the colloquy I stated that I was not conscious of any conflict during the course of the various representations.

There had been no reference of any kind to the existence of any memoranda on the subject, when you suddenly asked if I would be willing to provide our legal memoranda on the subject.

I responded, "Yes. Yes, we shall so provide. Will you make a note." I meant for my answer to signify our willingness to cooperate with the Committee, but I did not intend my answer to mean there actually were such memoranda in existence. My answer should have included the additional words, "if there are any."

It is my belief that we have no memoranda on this subject and never have had any. I know that I never prepared such a memorandum, and I

Honorable Henry B. Gonzalez March 4, 1992 Page Two

have no knowledge of ever seeing such a memorandum prepared by anyone else. In your letter of February 27, 1992 you list eight categories in which memoranda might have been prepared. I know of no memoranda that ever existed in any of these categories.

Very truly yours,

Clark M. Clifford

SKADDEN, ARPS, SLATE, MEAGHER & FLOM

1440 NEW YORK AVENUE, N.W. WASHINGTON, D.C. 20005-2107

(202) 371-7000

FAX ,202) 393-5760 DIRECT DIAL BOSTON
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WILMINGTON

September 10, 1991

BY HAND

The Honorable Henry B. Gonzalez Chairman Committee on Banking, Finance and Urban Affairs U.S. House of Representatives 2129 Rayburn House Office Building Washington, D.C. 20515

Dear Chairman Gonzalez:

We are writing on behalf of Clark M. Clifford and Robert A. Altman in connection with their appearance before the Committee on Banking, Finance and Urban Affairs, scheduled for Wednesday, September 11, 1991. Under separate cover, we are providing Messrs. Clifford and Altman's Joint Written Statement to the Committee in this matter.

By letters dated August 21, 1991, you requested that Messrs. Clifford and Altman provide written responses to a number of specifically identified questions, covering a wide range of events and activities over the past 13 years. Many of these matters are addressed in Messrs. Clifford and Altman's Written Statement, and we anticipate that many will also be addressed in Messrs. Clifford and Altman's oral testimony. In an effort to be of assistance to the Committee, we also have prepared separate written

The Honorable Henry B. Gonzalez September 10, 1991 Page Two

responses to the specific questions posed in your referenced letters. These responses are appended hereto.

Sincerely,

Adul & Bennett
Robert S. Bennett

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Carl S. Rauh

Afect B Fishe

Robert B. Fishe

Enclosures

Responses to Questions Posed in Chairman Gonzalez' Letters dated August 21, 1991 to Clark M. Clifford and Robert A. Altman

Question 1: A brief overview of your background.

Clark M. Clifford was born in 1906. Mr. Clifford was admitted to practice before the Missouri bar in June 1928, and has had an active legal career spanning more than six decades. He continues to practice as the senior partner in Clifford & Warnke, the Washington, D.C. law firm he founded in 1950.

Mr. Clifford has devoted a substantial portion of his career to public service. He volunteered to serve during World War II and, in 1943, received a commission in the United States Navy. After serving in various posts, he was assigned to the Naval Aide's Office at the White House. In 1946, Mr. Clifford was appointed Counsel to President Harry S. Truman and served in that capacity until 1950. He has served in the administrations of Presidents John F. Kennedy, Lyndon B. Johnson and Jimmy Carter, including his tenure as Secretary of Defense during the Johnson administration.

Robert A. Altman was born in 1947. He received a B.A. with honors from The University of Wisconsin, and studied law at George Washington University Law School, where he was an editor of the Law Review and Order of the Coif. He earned a Juris Doctor with honors in 1971. Thereafter, Mr. Altman

joined Mr. Clifford's law firm, where he specialized in litigation and corporate law. He became a partner in the firm in 1976.

Question 2: How you first became involved with Financial General Bankshares including the individuals that introduced you to representatives of that institution.

In late 1977, T. Bertram Lance, the Director of the Office Budget of Management and during the administration, introduced Mr. Agha Hasan Abedi, the founder and then principal officer of the Bank of Credit and Commerce International, S.A. ("BCCI"), to Mr. Clifford. Messrs. Lance and Abedi sought Mr. Clifford's assistance in connection with litigation concerning Financial General Bankshares ("FGB"). This representation is described further in response to Question 9 below. In the course of that litigation, Messrs. Clifford and Altman met representatives of FGB.

Question 3: A short history of your relationship with the following entities and individuals:

Question 4: A short history of the relationship between Clifford & Warnke and the following entities and individuals:*

a. BCCI Holdings and its subsidiary banks in Luxembourg (BCCI S.A.), the Cayman Islands (BCCI Overseas), and International Credit and Investment Company (ICIC).

Messrs. Clifford and Altman's initial involvement with BCCI stems from Clifford & Warnke's legal representation of BCCI and Mr. Abedi in the FGB litigation referenced in response to Question 2. Until 1990, Clifford & Warnke remained one of a number of prominent law firms which provided legal services to BCCI on a variety of matters. Neither Mr. Clifford nor Mr. Altman has ever owned stock in BCCI Holdings or any of its subsidiary banks, nor has either been an officer, director or employee of BCCI. In addition, as is discussed below and explained in greater length in Messrs. Clifford and Altman's Written Statement to the Committee. BCCI served as an investment advisor and commercial banker to and communications link with the First American investors. Accordingly, over the past decade, Messrs. Clifford and Altman provided information

^{*} Insofar as Messrs. Clifford and Altman's relationship to the individuals and entities identified in Question 3 is directly related to their association with Clifford & Warnke, a single integrated response to Questions 3 and 4 is provided.

concerning First American's operations and financial progress to BCCI, so that it could in turn inform and advise the investors.

Clifford & Warnke has never represented ICIC, and Messrs. Clifford and Altman have never served as officers, directors, employees or shareholders of ICIC. We note, however, that at the time of the initial application for approval to acquire FGB the Securities and Exchange Commission ("SEC" or "the Commission") and the regulators were notified that ICIC might become a shareholder in FGB. Ultimately, however, ICIC did not participate as a shareholder of record of FGB or First American.

b. Credit and Commerce American Holdings (CCAH) and Credit and Commerce American Investments (CCAI).

From 1981 until August 1991, Mr. Clifford served on the Boards of Directors of CCAH and CCAI, the holding companies for First American Bankshares, Inc. He became Chairman of those Boards in 1989. During that same period, Mr. Altman served as a member of the Boards of Directors and Secretary of CCAH and CCAI. During this period Clifford & Warnke has represented CCAH and CCAI in connection with a variety of legal matters.

c. First American Bankshares and First American Corporation and their affiliates.

From 1981 until August 1991, Mr. Clifford served as Directors Chairman of the Board of of First American Corporation ("FAC"), and from 1982 until August 1991 Chairman of the Board of First American Bankshares, Inc. 1981 to August 1991 Mr. Altman served as President and Director Mr. Altman has also served as a member of the Boards of FAC. of Directors of First American Bankshares, Inc. and three of its subsidiaries -- First American Metro Corporation, First American Bank of Georgia, and First American Bank of New York.

Over the years, Clifford & Warnke has represented First American Bankshares, Inc., FAC and its affiliates in connection with a variety of matters.

- d. Agha Hasan Abedi, Swaleh Naqvi, Ghaith R. Pharaon, Sheik Kamal Adham, and Sheik Zaied al Nahyan.
 - Agha Hasan Abedi and Swaleh Naqvi

relationship Messrs. Clifford and Altman's Messrs. Abedi and Naqvi stems from their representation of Mr. Abedi and BCCI in connection with the FGB takeover litigation referenced above, and their subsequent roles as directors and officers of First American. Further, following the settlement litigation, Clifford takeover Messrs. and understood BCCI would continue that in its capacity investment advisor to the CCAH shareholders, and also would serve as a communications link with the CCAH shareholders, who were located throughout the Middle East. These anticipated roles were disclosed to the federal and state regulators who approved of the acquisition of FGB. Consistent with these disclosures, Messrs. Clifford and Altman interacted with Messrs. Abedi and Naqvi to keep them apprised of significant events in First American's development. In addition, as is noted in response to Questions 3(a) and 4(a) above, Clifford & Warnke has provided legal services to BCCI during the past decade. In connection with that representation, Messrs. Clifford and Altman have had discussions and meetings with Messrs. Abedi and Naqvi.

Other than representing Mr. Abedi and other defendants during the course of the FGB litigation referenced above, Clifford & Warnke has not represented either Mr. Abedi or Mr. Naqvi on any matter.

• Ghaith R. Pharaon

As is noted in response to Question 11 below, Clifford & Warnke represented T. Bertram Lance when he sold his interest in the National Bank of Georgia ("NBG") to Mr. Pharaon in 1978. Also, as is explained more fully in response to Question 10 below, in 1987 Mr. Pharaon sold his interest in the NBG to First American.

It should also be noted that in 1984, Clifford & asked to represent Attock Oil Company, was Warnke ("Attock"). which was understood to be a wholly owned Investment subsidiary of Finance International Limited ("FIIL"), a holding company based in Grand Cayman. FIIL, at that time. reportedly was owned principally by shareholders: Mr. Ghaith Pharaon (75%), Sheikh Kamal Adham (10%) and Faisal Saud Al-Fulaij (10%). The proposed representation pertained to Attock's interest in acquiring a New Jersey oil refinery. In connection with this effort, Mr. Clifford met with Mr. Pharaon on one occasion in New York; acquisition never materialized, however, the and the representation did not proceed.

Attock again approached Clifford & Warnke for assistance in late 1985 in connection with its efforts to acquire an oil refinery located in Texas. White & Case served as Attock Oil's principal counsel in connection with this proposed transaction. This was a short-lived effort on the part of Clifford & Warnke, and the transaction was never consummated.

In addition, in 1988 Mr. Pharaon sought Clifford & Warnke's assistance in connection with his interest in financing a possible movie production project in South America. As part of this effort, Mr. Altman met with

representatives of several movie studios. This was also a short-lived effort by Mr. Pharaon, and the contemplated project did not proceed.

• Sheikh Kamal Adham

Sheikh Kamal Adham was one of the four original investors to acquire an interest in FGB in late 1977/early He was considered to be one of the leading citizens of Saudi Arabia, and was related to the former king by marriage. Messrs. Clifford and Altman understood him to be a man of integrity and substance with extensive investments throughout He provided sworn testimony at depositions in the world. connection with the FGB litigation to the effect that: (i) he was purchasing FGB shares for his own interest, because the United States represented an economically and politically stable environment for investment; (ii) BCCI did not control his shares; (iii) BCCI did not finance his shares and would not finance his participation in the tender offer; and (iv) he intended his investment to be a passive one to be managed by American professionals.

Sheikh Adham also appeared at a hearing before the Federal Reserve Board of Governors in April of 1981, held in connection with the investors' application for approval to acquire FGB. At that time, he affirmed that he -- not BCCI --

owned and controlled his FGB shares, and that he -- not BCCI--had invited additional investors from Saudi Arabia to join the group that participated in the tender offer. Sheikh Adham further stated that he did not intend to finance his purchases in the tender offer through BCCI, and intended to be a passive investor and to leave the management of the bank to an American Board of Directors.

Sheikh Adham had requested that Mr. Clifford serve as the Chairman of the Board. After receiving assurances that he would be granted complete authority to select the members of the Board and to oversee the operations of First American, Mr. Clifford agreed to accept responsibility for management of the Company, and became Chairman of FAC and First American Bankshares, as discussed above. These events are discussed at further length in Messrs. Clifford and Altman's Written Statement.

In the years that followed the acquisition, Sheikh Adham became the informal leader of the investor group and interacted with Messrs. Clifford and Altman on a regular basis. Sheikh Adham's actions appeared at all times to be consistent with Messrs. Clifford and Altman's understanding that he had a genuine and personal interest in First American. In this regard, Sheikh Adham travelled to meet with Messrs. Clifford and Altman to discuss the progress of First American,

participated as a purchaser of additional shares, and has steadfastly maintained that he acted on his own behalf, not as a nominee for BCCI.

In the mid-1980's, Clifford & Warnke provided certain legal advice to Sheikh Kamal Adham in connection with a business venture unrelated to any banking matter. The firm received fees from Sheikh Adham for the services provided. Finally, as was noted above, in 1984 and 1985, Clifford & Warnke provided certain legal services to Attock Oil Co., which was understood to be owned by a holding company in which Sheikh Adham held a 10% ownership interest.

Sheikh Zaied al Nahyan

Sheikh Zaied al-Nahyan is the ruler of Abu Dhabi. His Highness first purchased shares in CCAH during 1983. Two of his sons, Sheikh Mohammed and Sheikh Sultan, had participated in the initial acquisition of FGB stock in 1977. Messrs. Clifford and Altman's relationship to Sheikh Zaied was based solely on his status as a CCAH shareholder. In this regard, he or his representatives received periodic reports on the progress of First American through BCCI, acting as a communications link, and participated in the various rights offerings to raise additional capital for the Company.

In the mid 1980's, Clifford & Warnke was asked by Mr. Abedi to identify possible opportunities for investment, in the

form of other corporate acquisitions, for Sheikh Zaied. This request was understood to have been made by Mr. Abedi in his capacity as investment advisor to Sheikh Zaied. Although Mr. Clifford and Mr. Altman did identify several potential investments, apparently none were pursued by Sheikh Zaied.

Question 5: Describe your positions with, responsibilities to, and functions at, First American, CCAH, CCAI, BCCI, and ICIC. Please provide any relevant descriptive documents.

As was noted in response to Question 3 above, at various times prior to August 1991, Mr. Clifford served as Chairman of the Boards of Directors of CCAH, CCAI, FAC and Mr. Altman, prior to August First American Bankshares, Inc. 1991, served as President of FAC and Secretary of CCAH and CCAI, and was a member of the Boards of Directors for CCAH, CCAI, FAC and First American Bankshares, Inc. At various times during the past nine years, he has also served on the Boards of First American Bank of Georgia, First American Metro Corporation and First American Bank of New York. Messrs. Clifford and Altman performed the customary responsibilities and duties associated with their positions.

Messrs. Clifford and Altman have resigned from their respective positions, and have no current responsibilities or functions with respect to these entities.

Neither Mr. Clifford nor Mr. Altman has ever served as an officer, director, shareholder or employee of either BCCI or ICIC, nor has either ever held any other position with BCCI or ICIC.

Question 6: Did you, or Clifford & Warnke, ever have knowledge of BCCI ownership or control of CCAH, CCAI or First American? Did BCCI ever influence the management practices of CCAH, CCAI or First American? Please explain.

Until the most recent allegations regarding the secret ownership of First American by BCCI, Messrs. Clifford and Altman and Clifford & Warnke did not have any knowledge, nor did they have any reason to suspect, that BCCI may have owned or controlled any shares of CCAH stock. Nor do they know today what the true facts are regarding BCCI ownership of CCAH No stock has been issued to BCCI by the Company or registered in its name or for its beneficial interest. No documentation has ever been presented to effectuate a change in the CCAH share registry so as to reflect ownership in any shares by BCCI. No notice of foreclosure on Company stock has ever been received from BCCI. Moreover, at all times, the registered shareholders have voted their stock and appeared to be the real parties in interest. Simply stated, Mr. Clifford and Mr. Altman had no evidence that, and were unaware whether, any of the shareholders -- all persons of substantial wealth and prestige -- were acting as mere nominees or fronts for BCCI.

BCCI has never directed or controlled the management of CCAH, CCAI or First American. Since its inception, the ultimate authority to establish the policies and strategies of the bank has resided with Mr. Clifford and the respective Boards of Directors, consistent with the disclosures made to the Federal Reserve Board and state regulators regarding the control and management of First American. At no time has this authority been ceded to or exercised by BCCI.

As is described in Messrs. Clifford and Altman's Written Statement to the Committee, in connection with First American's efforts to establish a banking operation in New York, Mr. Abedi -- in his capacity as investment advisor to the shareholders -- recommended or offered his views on several for candidates certain bank positions. Because First American's New York operations were intended to international capability, and because Mr. Abedi had extensive international banking experience, his comments were welcomed. Abedi, however, did not make decisions regarding the selection, hiring or retention of any First American officers.

In this regard, we note that the recent audit report by Price Waterhouse to the Bank of England indicates that it

found no evidence that BCCI had sought to exert any control over CCAH or its subsidiaries:

[BCCI's] former management have represented to us that the arrangements [between BCCI and First American] were in the form of a "merchant banking" transaction, in that it always acted as a "sleeping partner," at no time using any voting rights or exercising any controlling influence over the management of First American.

(Price Waterhouse Audit Report on BCCI under Section 14 of the Banking Act 1987, submitted to the Bank of England, dated June 21, 1991, p. 25) (emphasis added).

Question 7: A history of your financial relationships including loans, stock ownership, and compensation, in any capacity, with BCCI, ICIC, CCAH, CCAI, and First American.

Messrs. Clifford and Altman's compensation from CCAH and its subsidiaries is set forth in their Written Statement to the Committee. As is noted therein, as Chairman of the Board Mr. Clifford received \$50,000 per year. Mr. Altman, who did any salary as President of receive FAC. approximately \$20,000 per year in director's fees. Messrs. Clifford and Altman's purchases of CCAH stock in 1986 and 1987, and their sale of a portion of their holdings in 1988, is also described at length in their Written Statement Committee. As is explained therein, those purchases and sales were completely legal and proper, and did not contravene any representations made to federal and state regulators connection with the applications to acquire FGB. Currently,

neither Mr. Clifford nor Mr. Altman has any outstanding indebtedness to BCCI, nor is any of their CCAH stock subject to a pledge agreement or lien.

As is also noted in their Written Statement to the Committee, Messrs. Clifford and Altman participated in a CCAH rights offering in 1989, and in 1990 they each purchased convertible debentures offered by CCAH. These purchases were not financed by any bank. As of December 31, 1990, Mr. Clifford held .83% of CCAH's outstanding stock, and Mr. Altman held .41%.

Mr. Altman has a mortgage loan from First American Bank of Maryland, secured by a personal residence in Potomac, Maryland. This loan, which is current, was made at market rates, based on independent appraisals of the property, and was processed and approved in accordance with First American's established policies and procedures.

Messrs. Clifford and Altman have never received any loans or compensation from ICIC. Moreover, they have never owned any stock in that entity. As was noted above, the law firm of Clifford & Warnke has rendered legal services to BCCI during the past decade. The law firm, in which Messrs. Clifford and Altman are partners, has been paid for the legal services provided to BCCI. (See Answer to Question 8 below).

Question 8: Provide a history of the financial relationship, including loans and compensation between Clifford & Warnke and BCCI, ICIC, CCAH, CCAI and First American.

Clifford & Warnke first represented BCCI in 1978 in connection with the FGB takeover litigation. As is described in Messrs. Clifford and Altman's Written Statement to the Committee, and in response to Question 9 below, other firms also were engaged to provide representation in connection with that matter.

From that time to 1990, Clifford & Warnke (as well as other law firms) provided legal services to BCCI on a regular basis. Clifford & Warnke has received fees for the services provided. The law firm has never requested, nor has it ever received, a loan from BCCI.

Similarly, from time to time, Clifford & Warnke has provided legal services to CCAH, CCAI, FAC, First American Bankshares and First American Metro Corporation regarding a variety of legal matters, including litigation that followed the takeover of FGB. Again, Clifford & Warnke received fees for the services provided. While the firm has been retained on occasion to assist First American's subsidiary banks, Clifford & Warnke does not serve as general counsel to those entities. These banks employ in-house counsel, as well as other outside law firms.

From 1983 to the present, Clifford & Warnke has maintained a checking account and an investment account at First American Bank N.A., in Washington, D.C. In 1986, the law firm also opened a separate account for the firm Profit Sharing Plan Trust. On very limited occasions since 1983, the firm also has opened escrow accounts or accounts "for the benefit of" law firm clients.

In 1986, First American Bank N.A. extended an automobile loan and an equipment loan to Clifford & Warnke. Both loans were paid in full in 1990.

Clifford & Warnke has not represented ICIC, nor has it borrowed any funds from that institution. The firm has no financial relationship with that entity.

Question 9: Please explain any actions performed by you, in any capacity, in facilitating the purchase of Financial General Bankshares by foreign investors.

As was noted in response to Question 2 above, in approximately early 1978, the law firm of Clifford & Warnke was retained to represent the defendants in litigation brought by FGB arising from the purchase of FGB stock by four Middle Eastern investors. These investors, Sheikh Kamal Adham, Mr. Faisal Saud al-Fulaij, Sheikh Sultan bin Zaied al-Nahyan and Mr. Abdullah Darwaish (acting on behalf of Sheikh Mohammed bin Zaied al-Nahyan, a minor child of the ruler of the Emirate

of Abu Dhabi) -- each of whom was a BCCI client -- had each purchased slightly less than five percent of the outstanding shares of FGB.

Alleging that these investors had bought their shares in violation of various provisions of the Securities and Exchange Act of 1934, FGB filed suit in federal District Court in Washington, D.C. to enjoin the investors from acquiring any further stock or from voting the shares which they had acquired. The named defendants in the law suit included the four investors, Mr. Darwaish, Mr. Lance, Mr. Abedi and BCCI. Clifford & Warnke was retained to represent their interests in that matter. The law firm of Wachtell, Lipton, Rosen & Katz served as co-counsel in that representation.

In March 1978, counsel negotiated a settlement with the SEC under which, without admitting or denying the Commission's allegations that they had acted as a group, the investors, Mr. Abedi, and BCCI consented to the entry of judgments of permanent injunction prohibiting them from violating Section 13(d) of the Securities and Exchange Act of 1934 and the regulations thereunder. As part of the settlement, the investors represented that they and/or ICIC intended to make a tender offer for all of FGB's shares, subject to obtaining the necessary banking and regulatory

approvals. In that regard, the law firm of Kutak, Rock & Huie was retained to provide regulatory advice.

This litigation and the transactions leading up to and culminating in the final acquisition of FGB in March 1982, including the state and federal regulatory proceedings, are described in the March 3, 1982 tender offer document prepared by Kidder Peabody & Co., which is attached hereto. Messrs. Clifford and Altman and the law firm of Clifford & Warnke served as counsel to these investors in the litigation and various transactions described therein, and were actively involved in virtually all phases of the events and proceedings relating to the acquisition.

Question 10: Please explain any actions performed by you, in any capacity, in assisting the purchase by First American of the National Bank of Georgia, Bank of Escambia, or any other financial institution.

The acquisition of NBG is described in Messrs. Clifford and Altman's Written Statement to the Committee. That acquisition was initiated by Mr. Clifford. As is described in Messrs. Clifford and Altman's Written Statement, the NBG acquisition was pursued and completed because, in the view of Directors, it served First American's best the Board of interests. As officers and directors in the Company, Messrs. Clifford and Altman pursued the acquisition and participated in the Board decision to acquire NBG.

Prior to its acquisition by First American, NBG had the Florida-based Bank οf Escambia through Following its acquisition of NBG in 1987, First foreclosure. American filed applications with the Federal Reserve and the state banking regulators in Georgia and Florida for permission First American to retain ownership of the Bank of Escambia. retained regulatory counsel to assist it in the application In their capacities as officers and directors of First American, Messrs. Clifford and Altman had ultimate responsibility for this process. Mr. Altman also met with representatives of the Federal Reserve in connection with the regulatory proceedings, including a review by the Federal Reserve of First American's relationship with BCCI. applications relating to the Bank of Escambia were approved by the Federal Reserve and the Georgia and Florida authorities.

Question 11: Please explain any services rendered by you, if any, in any capacity, in assisting Mr. Ghaith Pharaon's purchase or sale of any bank or nonbank entity in the U.S. including Independence Bank and National Bank of Georgia.

Clifford & Warnke represented T. Bertram Lance when he sold his interest in NBG to Mr. Pharaon in 1978. As is noted in response to Question 10 above, in 1987 First American acquired NBG from Mr. Pharaon. Clifford & Warnke did not represent Mr. Pharaon in connection with that transaction, nor

have they provided legal advice to him in connection with the purchase or sale of any other banking entity. As is noted in response to Question 3(d) and 4(d) above, Clifford & Warnke and Messrs. Clifford and Altman have rendered legal advice, relating to the contemplated purchase of nonbanking entities, to corporate entities in which Mr. Pharaon holds an ownership interest.

Question 12: Please describe your role, and the role of Clifford & Warnke with regard to the BCCI Legal Defense Fund. Please describe First American's involvement in the defense fund.

As a service to BCCI, Clifford & Warnke reviewed for reasonableness the bills submitted by a number of law firms that were retained to represent BCCI and its employees in connection with the 1988 money laundering case in Tampa, Florida; bills submitted by accountants serving as a consultant to BCCI in connection with the defense of that case; fees and expenses incurred by investigators; and other litigation related expenses. It is not uncommon in the case of litigation involving multiple law firms for a corporation to request that one firm review the bills of other firms for reasonableness.

The funds of BCCI used to pay the bills approved for payment were held in an account established by Clifford & Warnke at First American N.A. in Washington, D.C.

Question 13: Please explain the "special invitee" status under which you attended the BCCI annual conferences. Include the name of the party(ies) you represented, the purpose of the conference, and the purpose of your presence. Please describe any other events you attended under this status.

Mr. Clifford has never attended а BCCI annual conference. Mr. Altman attended three BCCI annual conferences, the last of which was in 1986, some five and one-half years He was invited by Mr. Abedi and was one of a number of quests at these meetings. The agendas for these conferences were generated by BCCI and involved little, if indeed any, substantive information regarding BCCI or banking. Much of the agenda was devoted to discussions of management theory, philosophy and other general matters by Mr. Abedi.

Mr. Altman played no role in the presentation of materials to the attendees at the conference. His attendance was intended as a means of maintaining good relations with BCCI -- which was both a client of Clifford & Warnke and the investment advisor to the CCAH shareholders. In addition, it was hoped that business opportunities for First American might be developed.

Attachment to Responses to Questions Posed in Chairman Gonzales' Letters dated August 21, 1991 to Messrs. Clark M. Clifford and Robert A. Altman

Offer to Purchase for Cash

Any and All Outstanding Shares of the Common Stock

Λf

Financial General Bankshares, Inc.

ai

\$33.80 Net Per Share

by

FGB Holding Corporation

An Indirect Wholly Owned Subsidiary of Credit and Commerce American Holdings, N.V.

The Offer will expire on Thursday, April 8, 1982, at 10:00 A.M., New York City time, unless extended.

The Board of Directors of Financial General Bankshares, Inc. has unanimously determined that the Offer is in the best interests of the Company and the holders of its Common Stock, par value \$.10 per share, has consented to the Offer and recommends to the holders of such Common Stock that they accept the Offer.

The Offer is not conditioned upon any minimum number of shares being tendered.

The Offer is not being made for shares of the Company's Class A Common Stock, Series 1, par value \$.10 per share, or Cumulative Preferred Stock, Series A, par value \$1 per share.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE FAIRNESS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

IMPORTANT

Stockholders desiring to accept the Offer should either: (1) request their broker, dealer, commercial bank, trust company or nominee to effect the transaction for them or (2) complete and sign the Letter of Transmittal or a facsimile thereof, have their signature thereon guaranteed as required by Instruction 1 of the Letter of Transmittal and forward the Letter of Transmittal with their stock certificate(s) and any other required documents to the Depositary or the Forwarding Agent at their respective addresses set forth on the back cover of this Offer to Purchase. See Section 5. Stockholders having shares registered in the name of a broker, dealer, commercial bank, trust company or nominee must contact such person if they desire to tender the shares so registered.

Questions and requests for assistance may be directed to the Dealer Manager or to the Information Agent at their respective addresses and telephone numbers, as set forth on the back cover of this Offer to Purchase. Requests for additional copies of the Offer to Purchase and the Letter of Transmittal may be directed to the Information Agent or to brokers, dealers, commercial banks or trust companies.

The Dealer Manager for the Offer is:

Kidder, Peabody & Co.

Incorporated

March 3, 1982

611

TABLE OF CONTENTS

	Page
Introduction	3
Special Factors	4
Background	4
Purpose and Effects of the Offer	7
Reasons for, and Basis for the Terms of, the Offer; Fairness	9
Financial Advisor	13
The Offer	13
1. Terms of the Offer	13
2. Acceptance for Payment, Purchase and Payment	13
3. Withdrawal Rights	14
4. Certain Tax Consequences	14
5. Procedure for Accepting the Offer and Tendering Shares	14
6. Price Range of Shares; Dividends	16
7. Effect of the Offer on Stock Exchange Listing, Market for the Shares and Registration under the Exchange Act	17
8. Certain Information Concerning the Company	18
9. Certain Information Concerning the Purchaser, CCAI and CCAH	21
10. Source and Amount of Funds	22
11. Description of the Acquisition Agreement	24
12. Certain Legal Matters	26
13. Extension of Tender Period; Termination; Amendment	30
14. Dividends and Distributions	30
15. Certain Conditions of the Offer	30
16. Solicitation and Other Fees and Expenses	32
17, Miscellaneous	33
Annex A-Directors and Executive Officers of the Purchaser, CCAI and CCAH and Persons Who May Be Deemed To Be Controlling the Purchaser, CCAI and CCAH	

Annex B — Opinion of The First Boston Corporation

To the Holders of Common Stock of Financial General Bankshares, Inc.:

INTRODUCTION

FGB Holding Corporation, a Virginia corporation (the "Purchaser") and a wholly owned subsidiary of Credit and Commerce American Investment, B.V., a Netherlands corporation ("CCAI"), which, in turn, is a wholly owned subsidiary of Credit and Commerce American Holdings, N.V., a Netherlands Antilles corporation ("CCAH"), hereby offers to purchase any and all outstanding shares of the Common Stock, par value \$.10 per share (the "Shares"), of Financial General Bankshares, Inc., a Virginia corporation (the "Company"), at \$33.80 per Share net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"). Tendering stockholders will not be obligated to pay brokerage commissions, fees or, except as set forth in Instruction 7 of the Letter of Transmittal, transfer taxes in connection with the purchase of Shares by the Purchaser pursuant to the Offer. The Purchaser will pay all charges and expenses of The Chase Manhattan Bank, N.A. (the "Depositary") and American Security Bank, N.A. (the "Forwarding Agent").

The Board of Directors of the Company has unanimously determined that the Offer is in the best interests of the Company and the holders of Shares, has consented to the Offer and recommends to the holders of Shares that they accept the Offer.

The Offer is not conditioned upon any minimum number of Shares being tendered.

The Offer is not being made for shares of the Company's Class A Common Stock, Series 1, par value \$.10 per share (the "Class A Shares"), or Cumulative Preferred Stock, Series A, par value \$1 per share (the "Preferred Shares").

The Company has set March 10, 1982 as the record date for the Company's quarterly cash dividend of \$.10 per Share. Tendering stockholders will be entitled to receive such dividend, which the Company has announced will be payable on May 3, 1982.

The Purchaser is making the Offer pursuant to an agreement (the "Acquisition Agreement"), dated July 25, 1980, as amended as of December 31, 1981, among Kamal Adham, Abdullah Darwaish (on behalf of Mohammed bin Zaid al Nahyan), Faisal Saud al Fulaij (collectively referred to herein as the "Investors"), the Purchaser, CCAH (of which the Investors are stockholders), CCAI and Stuart Symington, a voting representative of the Investors (see Section 11), and the Company.

The Acquisition Agreement provides that subject, among other things, to the receipt of all required banking, regulatory and other approvals and the satisfaction of certain conditions, a cash tender offer will be made for any and all Shares at a per Share price of 158.3333% of the Company's "Per Share Book Value" as of the last day of the last calendar quarter prior to the date Shares are to be first purchased pursuant thereto (the "Value Date"). The Acquisition Agreement defines the term "Per Share Book Value" as the amount equal to the Company's total stockholders' investment as set forth in the Company's consolidated balance sheet as of the Value Date, less the involuntary liquidation value of the Preferred Shares, as of the Value Date, divided by the total number of Shares and Class A Shares outstanding as of the Value Date. As of December 31, 1981, the Per Share Book Value was \$21.35. All required banking, regulatory and other approvals have been received (see Section 12) and all the conditions to the making of the Offer provided for in the Acquisition Agreement have been satisfied. See "Special Factors — Background" and Section 11.

Messrs. Adham, Fulaij and Darwaish and CCAI presently own an aggregate of 1,244,040 Shares, or approximately 18.6% of the 6,688,926 Shares that the Company has advised the Purchaser were outstanding as of February 26, 1982. It is contemplated that the Purchaser will receive such Shares as a capital contribution promptly after the expiration of the Offer. The Investors do not own any Class A Shares or Preferred Shares. See Section 9.

The Company has advised the Purchaser that as of February 26, 1982, the directors and executive officers of the Company beneficially owned an aggregate of 2,424,172 Shares, or approximately 36.2% of the Shares outstanding as of such date and that, to the best of the Company's knowledge, each of such directors and executive officers intends to tender the Shares that are held of record or beneficially owned by him. The Company has also advised the Purchaser that as of February 26, 1982, an aggregate of approximately 326,810 Shares, or approximately 4.9% of the Shares outstanding as of such date, were held under a Trust for the Company's Employee Stock Ownership Plan and Trust (the "Plan"), and that the Trustee of the Plan intends to tender all of such Shares pursuant to the Offer.

The Purchaser contemplates that if it acquires control of the Company pursuant to the Offer, it will recommend that the Company increase the rate of the regular quarterly cash dividend paid on the Shares. See "Special Factors — Purpose and Effects of the Offer" and Section 10.

For a more complete discussion of the Acquisition Agreement and related events, see "Special Factors" and Sections 9, 11 and 12.

SPECIAL FACTORS

Background

The Acquisition Agreement. The Acquisition Agreement was entered into to govern the acquisition of control of the Company by the Investors and to settle disputes between the Company and the Investors arising out of purchases of Shares by the Investors, including litigation between the Company and the Investors. See "Events Prior to the Execution of the Acquisition Agreement" below and Section 11. The Acquisition Agreement provides, among other things, that subject to the receipt of all required banking, regulatory and other approvals and the satisfaction of certain conditions, and provided that applicable law does not prohibit the Investors from acquiring control of the Company, a cash tender offer would be made for any and all Shares at a price of \$28.50 per Share, or, in the event Shares are first purchased pursuant to such offer subsequent to December 31, 1980, 158.3333% of the Per Share Book Value as of the Value Date.

The terms of the Acquisition Agreement, including the Offer price, were arrived at by arms'-length negotiations between representatives of the Company and counsel for the Investors. See "Reasons for, and Basis for the Terms of, the Offer; Fairness" below.

Pursuant to the Acquisition Agreement, on July 25, 1980, Messrs. Clark M. Clifford, counsel for the Investors, Elwood R. Quesada and Mr. Symington were elected to the Board of Directors of the Company. For more detailed information regarding the terms of the Acquisition Agreement, see Section 11.

Events prior to the execution of the Acquisition Agreement. The following information has been summarized from the Proxy Statement of Mr. Adham, dated April 3, 1980 (the "Proxy Statement"), relating to the 1980 Annual Meeting of Stockholders of the Company (the "1980 Annual Meeting"), and from the Statements on Schedule 13D filed with the Securities and Exchange Commission (the "Commission") by CCAH, CCAI, the Investors and Mr. Symington with respect to the Shares, and amendments thereto, which describe in detail the background of the Offer from the time of the Investors' first purchases of Shares in December 1977. The Proxy Statement has been filed as an exhibit to the Statement on Schedule 14D-1 filed with the Commission by the Purchaser, CCAI and CCAH relating to the Offer (the "Schedule 14D-1"). Reference should be made to such Schedules 13D (including the exhibits thereto) and to the Proxy Statement for more complete information regarding the events, transactions and documents summarized below, and such summary is qualified in its entirety by reference to such documents. Such Schedules 13D and the Schedule 14D-1 and any amendments thereto (including the exhibits thereto) may be examined and copies may be obtained in the manner described in Section 8 (except that they will not be available at the regional offices of the Commission).

4

(i) Purchases of Shares and related litigation. The Investors and a fourth individual, Sultan bin Zaid al Nahyan, originally acquired an aggregate of 1,075,550 Shares during December 1977 and January 1978 in the open market and in privately negotiated transactions at prices ranging from \$10¾ to \$15 per Share. On February 17, 1978, the Company instituted a lawsuit (the "Company Action") against the Investors and others, entitled Financial General Bankshares, Inc. v. Lance, et al., Civ. No. 78-0276, in the United States District Court for the District of Columbia (the "District Court"), alleging, among other things, that certain of the defendants, including the Investors, had bought their Shares in violation of various provisions of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and state law and seeking, among other things, to enjoin such persons from acquiring additional Shares or from voting the Shares already acquired. On April 27, 1978, the District Court found that there was a probability that the defendants had violated Section 13(d) of the Exchange Act by not making required timely filings with the Commission. However, the District Court refused to enjoin the defendants from making a tender offer for the Shares not owned by them, or from otherwise acquiring additional Shares or from soliciting proxies or voting their Shares, provided that prior to any such acquisition, solicitation or vote an offer of rescission (the "Rescission Offer") was made to those persons from whom the Investors purchased Shares in the open market during December 1977 and January 1978 (a total of 238,200 Shares of the 1,075,550 Shares acquired). The District Court dismissed all the other remaining allegations against the Investors in the Company Action. Transactions relating to a total of 945 Shares were thereafter rescinded in response to the Rescission Offer, which was commenced by CCAI on February 16, 1979 and expired on April 19, 1979. Pursuant to the Acquisition Agreement, the Company, CCAH, CCAI and the Investors subsequently agreed to dismiss, and on July 25, 1980, the District Court dismissed, the sole remaining allegation against the Investors in the Company Action.

On March 17, 1978, the Commission instituted a lawsuit (the "Commission Action") in the District Court, entitled Securities and Exchange Commission v. Bank of Credit and Commerce International, S.A., et al., Civ. No. 78-0469, alleging that the Investors and others allegedly associated with them had violated Section 13(d) of the Exchange Act in connection with their purchases of Shares without making required timely public filings. A separate allegation charged that an executive officer of the Company (not an Investor or associated with the Investors) had also violated Section 13(d) of the Exchange Act in connection with his filing of a Schedule 13D which was false and misleading in failing to disclose certain material facts relating to his acquisition of Shares in April 1977. Also on March 17, 1978, the Investors and the executive officer of the Company (who is no longer with the Company), without admitting or denying these allegations, consented to the entry of judgments of permanent injunction against the violation of Section 13(d) of the Exchange Act and Rules 13d-1 and 13d-2 thereunder, and the Investors also represented that they intended to make a cash tender offer for any and all Shares at a price of not less than \$15 per Share by March 17, 1979. The documents reflecting such settlements with respect to the Investors (the "Consents") have since been modified (see "Reasons for, and Basis for the Terms of, the Offer; Fairness" below) and currently provide, among other things, that the Investors intend to make a cash tender offer for any and all of the Shares at not less than \$25 per Share, subject to obtaining all required banking, other regulatory and other approvals, which, as indicated above, have been obtained. Each of the Investors represented that in the event the Investors had failed to make the tender offer by September 30, 1982, he would have attempted to dispose of his Shares in blocks of not less than 100,000 Shares, at a cash price in excess of \$20 per Share, and that if any person had made a cash or exchange offer for any and all Shares at a price or value in excess of \$25 per Share, he would have tendered his Shares in response thereto. The Consents impose certain other obligations and restrictions concerning, among other things, the ability of the Investors to acquire additional Shares, and contain an undertaking pursuant to which Messrs. Adham and Fulaij established a \$1 million fund to pay persons who had sold Shares to them in open market transactions at less than \$15 per Share the difference between \$15 and the price received by such sellers. Such fund was made available to claimants from March 26, 1979 through September 14, 1979 and an aggregate of approximately \$754,000 was paid from such fund. On February 8, 1980, a purported class action complaint (the "Shareholder Action"), seeking damages, was filed in the District Court by Philip T. Berman as Trustee, and the Philip and Muriel Berman Foundation, Inc. against the Investors and others (Berman v. Metzger, et al., Civ. No. 80-0394). The plaintiffs, purporting to represent persons who sold Shares during the period December 1, 1977 through March 31, 1978, alleged, among other things, violations of the disclosure provisions of the Exchange Act in connection with the Investors' purchases of Shares during such period. On February 8, 1981, the District Court granted defendants' motion to dismiss the Shareholder Action and no appeal was taken therefrom.

(ii) The proxy contest and the settlement. In October 1978 CCAH and CCAI submitted an application (the "Federal Application") to the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") in connection with the Investors' proposed offer to purchase (through CCAH and CCAI) any and all Shares for cash at not less than \$15 per Share. While the Federal Application was pending, the Attorney General of Maryland rendered an opinion to the effect that the law of Maryland did not permit CCAH and CCAI to acquire control and become an affiliate of the Company unless First American Bank of Maryland ("First American"), a majority owned subsidiary of the Company, permitted the "affiliation" (see Section 12). First American had refused to do so. The Federal Reserve Board determined that it could not approve the Federal Application until the Maryland situation was resolved, and, accordingly, dismissed the Federal Application in early 1979.

On June 6, 1979, the Investors advised the Company that they were prepared to make the proposed tender offer at a price of \$22.50 per Share. In connection with obtaining an extension of time for the making of the Offer (the Consents then required that a cash tender offer be made by July 31, 1979), the Investors thereafter advised the Commission that they were prepared to raise the proposed tender offer price to \$25 per Share. On July 31, 1979, the Consents were modified to provide that the proposed tender offer would be made by July 31, 1980 at a price of at least \$25 per Share (see "Reasons for, and Basis for the Terms of, the Offer; Fairness" below). On August 8, 1979, the Investors formally advised the Company that they were prepared to make the proposed tender offer at a price of \$25 per Share and that if the Company continued to oppose the offer, they would request that the Company include in its proxy materials for the 1980 Annual Meeting a stockholder resolution recommending that the Company cease its opposition to the proposed offer. The Company, however, continued to oppose the proposed offer.

On December 28, 1979, Mr. Adham requested that the Company include in its Proxy Statement relating to the 1980 Annual Meeting resolutions (the "Resolutions") expressing the wish of the stockholders of the Company to consider a proposed cash tender offer for any and all Shares at not less than \$25 per Share and recommending that the Company's management and Board of Directors attempt to facilitate regulatory review of the transaction. The Company refused Mr. Adham's request. The Company also refused Mr. Adham's request for a list of the Company's stockholders and on March 21, 1980, Mr. Adham filed an action in the Circuit Court of Richmond, Virginia seeking an order directing the Company to provide him with such a list. On March 26, 1980, the Virginia Court overruled all of the Company's objections to Mr. Adham's request and ordered it to provide a stockholder list to Mr. Adham. Mr. Adham thereafter disseminated proxy materials to the Company's stockholders in support of the adoption of the Resolutions and the election as directors of three of his representatives. The Shares and the Class A Shares generally vote together as a single class in the election of directors and other matters, with the Shares having 10 votes per Share and the Class A Shares having one vote per share. The affirmative vote of the holders of a majority of the aggregate voting power of the Shares and Class A Shares represented and entitled to vote at the 1980 Annual Meeting was required to adopt the Resolutions; the affirmative vote of the holders of a plurality of the aggregate voting power of such shares was required to elect Mr. Adham's representatives. Although a substantial number of the votes cast at the 1980 Annual Meeting were cast in favor of the election of each of such representatives and approximately 47% of such votes were cast in favor of the Resolutions, such representatives were not elected and the Resolutions were not adopted.

Prior to the 1980 Annual Meeting, representatives of the Company indicated that the matter might be resolved if the Investors would increase the proposed tender offer price to \$28.50 per Share. The Investors advised such representatives that they were prepared so to increase the price. This proposal failed, however, to result in an agreement prior to the 1980 Annual Meeting. After the 1980 Annual Meeting, there were further discussions between representatives of the Company and counsel for the Investors, and on May 21, 1980, the Company and the Investors reached an agreement on guiding principles to govern the acquisition of the Shares by CCAH and CCAI. Such agreement was conditioned upon, among other things, the execution of a definitive agreement. On July 25, 1980, the Company, CCAH, CCAI, the Investors and Mr. Symington entered into the Acquisition Agreement.

For a detailed description of the Acquisition Agreement, see Section 11.

Purpose and Effects of the Offer

The Purchaser's purpose in making the Offer is to acquire all of the Shares and to exercise control over the Company. The Purchaser believes that the Company has an unrealized potential to become a more important and more competitive financial institution. In order to strengthen the financial position of the Company and to give it and its subsidiary banks increased operating flexibility, the Purchaser has committed to provide the Company with additional equity capital of \$12 million after the consummation of the Offer. See Section 12.

If the Purchaser acquires control of the Company, it is anticipated that the Company will continue to engage in its current lines of business and that the services rendered by the Company's subsidiary banks will be maintained and improved. In addition, the Purchaser contemplates that new and expanded services could be offered in response to evolving banking needs of the customers of the Company's subsidiary banks, and that the Company could develop an international banking department at certain of its subsidiary banks.

If the Purchaser acquires Shares which, together with the Shares presently owned by CCAI and the Investors, represent a majority of the voting power of the Company, it would have the power to elect all the directors of the Company and at least a majority of the directors on the Boards of Directors of those subsidiaries of the Company of which the Company owns a majority of the voting shares. If the Purchaser obtains control of the Company, the Purchaser intends to designate Mr. Clifford as the Chairman of the Board of the Company and Robert G. Stevens as the President and Chief Executive Officer of the Company. Mr. Stevens has had extensive experience in holding company banking, including serving as the Chairman and Chief Executive Officer of BancOhio Corporation and BancOhio National Bank, Columbus, Ohio from 1976 to 1981. For information regarding Mr. Clifford, see Annex A hereto. If the Purchaser obtains control of the Company, the Purchaser contemplates that it will make other changes in the management and the Board of Directors of the Company as and when any such changes may be deemed appropriate, but, the Purchaser has no present intention to change the management or the Boards of Directors of the Company's subsidiaries, except for the designation of persons to serve as the Company's representative on each of such Boards. Except for such representatives, the managements and members of the Boards of Directors of the Company's subsidiaries have been asked to remain with the Company after consummation of the Offer. See Section 12.

If the Purchaser acquires a substantial number of Shares pursuant to the Offer, it may propose and seek to effectuate a transaction or transactions in which the remaining equity interest in the Company, consisting of the Shares not owned by the Purchaser after the Offer, the Class A Shares and the Preferred Shares, would be acquired on such terms and conditions as the Purchaser, at the time, deems to be fair and equitable. (See Section 12 with respect to certain restrictions on the incurrence by the Purchaser of debt or the use of the \$12 million of equity to be provided to the Company in connection with any such transaction.) The Purchaser presently contemplates that any such trans-

action would be structured as a merger or mergers in which the Shares not then owned by it, the Class A Shares and the Preferred Shares (if not previously redeemed) would be converted into the right to receive cash. The terms (including the amount of consideration), timing, structure and other details of any such transaction would necessarily depend on a variety of factors such as general economic conditions and prospects, the future prospects, asset values and earnings of the Company and the number of Shares acquired by the Purchaser pursuant to the Offer. There can be no assurance that any such transaction will be proposed by the Purchaser or consummated or as to the terms thereof, and the Purchaser reserves the right to act with respect to these matters in accordance with its judgment. (The Company's loan agreement with The Chase Manhattan Bank, N.A. (see Section 6) may require the consent of such bank to any such transaction.) The Company has advised the Purchaser that as of February 26, 1982 there were 592,569 Class A Shares and 13,490 Preferred Shares issued and outstanding. According to the Company's Restated Articles of Incorporation (the "Articles"), the Preferred Shares may be redeemed, at the election of the Company's Board of Directors, at \$52 per share plus accrued dividends. The Purchaser has made no determination as to whether, if it obtains control of the Company, it will seek to cause the redemption of the Preferred Shares.

The Purchaser understands that under Virginia law and the Articles, if the Purchaser acquires Shares which, together with the Shares presently owned by it, represent a majority of the Shares and more than two-thirds of the voting power represented by the Shares and the Class A Shares, the Purchaser would have the voting power to cause the Company to effect a merger or a sale of all or substantially all of the Company's assets, subject, however, to the respective class rights (described below) of the holders of the Class A Shares and the Preferred Shares. Virginia law and the Articles provide that any amendment, alteration or repeal of the Articles which affects the rights or preferences of the Class A Shares or the Preferred Shares, and any merger or consolidation which similarly affects such rights or preferences, must be approved by the holders of more than two-thirds of each class of such securities voting separately as a class. Thus, a merger in which the Class A Shares and the Preferred Shares did not remain outstanding, or a sale of all or substantially all of the Company's assets, might require the affirmative vote of the holders of more than two-thirds of the Class A Shares and of the Preferred Shares, each voting as a separate class, as well as the affirmative vote of a majority of the Shares, voting as a separate class, and of more than two-thirds of the Shares and the Class A Shares, voting together as a single class.

Rule 13e-3 under the Exchange Act, as well as certain principles of state corporation law relating to the fairness of any such transaction or transactions, may be applicable to any transaction or series of transactions whereby the Purchaser seeks to acquire the remaining equity interest in the Company. Rule 13e-3 requires, among other things, that certain financial information concerning the Company and certain information relating to the fairness of the proposed transaction and the consideration offered to minority shareholders therein, be filed with the Commission and disclosed to minority shareholders prior to consummation of the transaction. In addition, under Virginia law stockholders of the Company might have the right to dissent and demand the fair value of their shares in connection with such a transaction.

Depending upon the number of Shares purchased pursuant to the Offer and other factors relevant to the Purchaser's equity position in the Company, the Purchaser may, subsequent to the consummation of the Offer, seek to acquire additional Shares, Class A Shares or Preferred Shares through open market or privately negotiated transactions or otherwise, on such terms and at such prices as it shall determine, subject, however, to applicable legal requirements and the obtaining of all necessary approvals and consents, including any required by the Consents. The Purchaser also reserves the right to dispose of any or all Shares which it has acquired.

The Purchaser contemplates that, if it acquires control of the Company pursuant to the Offer, it will recommend that the Company increase the cash dividend on the Shares above the dividend currently paid, consistent with the Company's loan agreement with the Chase Manhattan Bank, N.A. (see Section 6), the Company's earnings performance and the maintenance by the Company of

certain capital ratios agreed upon by CCAH, CCAI, the Purchaser and the Federal Reserve Board (see "Reasons for, and Basis for the Terms of, the Offer; Fairness" below and Sections 10 and 12). There can be no assurance that after the Offer the Company will increase the rate of its regular quarterly cash dividend on the Shares or that it will continue the payment of dividends on the Shares at the current rate. The Purchaser has not determined, whether, if it obtains control of the Company, it will recommend that the Company continue its past practice of paying an annual 5% stock dividend on the Shares and the Class A Shares. See Section 6.

On January 28, 1982 the Purchaser, CCAH, CCAI and certain directors (the "Bank Purchasers") of the Bank of Commerce, a New York corporation and an indirect, majority owned subsidiary of the Company (the "Bank of Commerce"), entered into an agreement (the "Bank Agreement") pursuant to which the Purchaser, CCAH and CCAI, upon the Purchaser's acquisition of a majority of the voting power of the Company, have agreed to cause to be granted to the Bank Purchasers the exclusive irrevocable right to purchase, subject to the terms and conditions of the Bank Agreement, the 1,026,614 shares of capital stock, par value \$2.50 per share (the "Bank of Commerce Shares"), of the Bank of Commerce owned by Empire Shares Corporation, a Delaware corporation and a wholly owned subsidiary of the Company ("Empire"), representing approximately 67.6% of the outstanding Bank of Commerce Shares, at a per share price equivalent to 1.6 times the Bank of Commerce's "book value per share", determined as of the last day of the last calendar quarter prior to the exercise of such right to purchase. Such right to purchase is exercisable until March 3, 1983 and is conditioned upon, among other things, the approval by the New York State Banking Board of an application by Community State Bank of Albany, New York ("Community State Bank"), another indirect, majority owned subsidiary of the Company, to establish a branch in Manhattan, New York. For a description of the Bank Agreement and events relating thereto, see Section 12.

For additional information regarding the effects of the Offer on the Company's stockholders, including certain tax consequences, and on the market for and the stock exchange listing of the Shares, see "Reasons for, and Basis for the Terms of, the Offer; Fairness" below and Sections 4 and 7.

If the Purchaser acquires Shares pursuant to the Offer, it intends to seek additional information about the Company and, after obtaining and reviewing such information, may, consistent with the Acquisition Agreement, representations made by the Purchaser to the Federal Reserve Board and the New York Banking Department and applicable law, propose any changes in the business, corporate structure, capitalization, Board of Directors, management or dividend policy of the Company or its subsidiaries which it considers desirable.

Except as indicated above, the Purchaser does not have any present plans or proposals which relate to or would result in an extraordinary corporate transaction, such as a merger, reorganization or liquidation involving the Company or any of its subsidiaries, a sale or transfer of a material amount of assets of the Company or any of its subsidiaries or any changes in the Company's present capitalization or its dividend policy or any other material changes in the Company's corporate structure or business.

No vote of the stockholders of the Company or the Purchaser is needed to make or consummate the Offer. The holders of Shares do not have appraisal rights with respect to the Offer under applicable law.

Reasons for, and Basis for the Terms of, the Offer; Fairness

At the time of their original purchases of Shares in December 1977 and January 1978, each of the Investors intended only to make an equity investment in less than five percent of the outstanding Shares. In March 1978, in view of the changed circumstances surrounding the investment in the Company of each of the Investors, including the institution of the Company Action and the pendency of the Commission inquiry which resulted in the Commission Action (see "Background" above), and in an effort to resolve these matters, the Investors and certain other persons considered the feasibility of a cash tender offer for any and all Shares. On March 14, 1978, in connection with efforts to settle the Commission inquiry, the Investors advised the Commission that they were prepared and had the financial resources available to make a tender offer for any and all Shares at a price

of not less than \$15 per Share in cash (which was the highest price the Investors had paid to acquire Shares). The Consents, as originally negotiated between and executed by the Investors and the Commission on March 17, 1978, contemplated that the Investors would make a tender offer for any and all Shares at a price of at least \$15 per Share in cash prior to March 17, 1979. The Company opposed the Investors' proposed tender offer until May 21, 1980, and as a result of such continued opposition, the Investors sought to obtain modifications of the Consents which extended the time by which the proposed tender offer was required to be made. The Consents were modified on February 22, 1979, July 13, 1979 and July 31, 1979 to provide such extensions of time. In an effort to present an attractive offer to the Company's stockholders, the Investors advised the Company on June 6, 1979 that they were prepared to make the proposed tender offer at a price of \$22.50 per Share. In connection with obtaining the July 31, 1979 modification of the Consents, the Investors advised the Commission that they were prepared to raise the price to \$25 per Share. The July 31, 1979 modification of the Consents provided that the proposed tender offer would be made by July 31, 1980 at a price of at least \$25 per Share in cash. Pursuant to the Acquisition Agreement, the price was raised to \$28.50 or, if Shares were first purchased pursuant to the tender offer subsequent to December 31, 1980, 158.3333% of the Per Share Book Value as of the Value Date. After the execution of the Acquisition Agreement, the Consents were further modified to extend the time to September 30, 1982 for the making of the Offer. See Section 11. For information regarding the market prices of the Shares at various times, including certain of the times referred to above, see Section 6.

CCAH, CCAI and the Investors did not consider themselves to have any special responsibility to evaluate the proposed per Share tender offer price from the standpoint of fairness to the holders of Shares, because (i) when the Acquisition Agreement was being negotiated with the Company and the Investors agreed to such price, the Consents (which had been negotiated between the Investors and the Commission) provided that the minimum price at which the Offer would be made was \$25 per Share (which was equivalent to 138.8888% of the Per Share Book Value as of December 31, 1979) and (ii) the Company had its own legal and financial advisors to advise it with respect to the Acquisition Agreement, including the fairness of the Offer. The price of \$28.50 as well as the formula price of 158.3333% of the Per Share Book Value in the event that Shares were not purchased until after December 31, 1980 specified in the Acquisition Agreement were arrived at in arms'-length negotiations. The formula was designed to provide for an appropriate upward or downward adjustment of the \$28.50 per Share price (which was equivalent to 158.3333% of the Per Share Book Value at December 31, 1979) in the event that the making of the Offer were delayed because of the time required to obtain necessary banking, regulatory or other approvals or because of other factors beyond the control of CCAH, CCAI, the Investors and the Company. In addition, since at that time the Consents contemplated that a cash tender offer would be made and required that such offer be made by July 31, 1980, and given the history of the matter, GCAH, CCAI and the Investors did not consider any means of acquiring control of the Company other than their tender offer proposal. CCAH, CCAI and the Investors then believed, and they and the Purchaser now believe, that a per Share price of 158.3333% of the Per Share Book Value as of the Value Date represents a very substantial premium over the price at which the Shares were trading immediately before the proposed tender offer was first announced in 1978 and the historical market prices of the Shares (see Section 6), as well as a very substantial premium over the book value of the Shares, and that the Offer provides holders of Shares an opportunity to take advantage of a significant economic benefit by selling their Shares at a substantial premium price. Moreover, the per Share Offer price represents a substantial premium over the highest price at which the Investors acquired their Shares (\$15 per Share). As indicated under "Financial Advisors" below, the Investors' financial advisor advised the Investors that the Offer would be an attractive long-term investment for them. While no specific weight was given to any of the foregoing factors, in considering a per Share Offer price the Investors viewed the relationship of such price to the book value of the Shares as the most significant of such factors. On the basis of the foregoing, the Purchaser believes the Offer and the Offer price are fair to the holders of the Shares.

The corporate structure of CCAH, CCAI and the Purchaser was influenced in part by the United States and foreign tax considerations described in the following two paragraphs.

The principal United States federal income tax advantage of the proposed corporate structure relates to the ability of the Purchaser and the Company to join in a consolidated federal income tax return. Once the Purchaser owns 80% or more of the voting stock of the Company (which would involve ownership of approximately 81% or more of the Shares), it intends to consolidate with the Company for United States federal income tax purposes. In the event of such consolidation, interest expense on the Purchaser's borrowings pursuant to the loan described in Section 10 being incurred to partially finance the Offer would reduce the taxable income of the consolidated group of which the Purchaser and the Company will be a part, thereby reducing the federal income tax liability which would otherwise be incurred by such consolidated group in the absence of such consolidation and increasing the group's cash flow. The cash generated by such tax consolidation could be transferred from the Company to the Purchaser without federal income tax consequences pursuant to an inter-company tax sharing arrangement. The Company and its subsidiaries are presently parties to such an arrangement and the Purchaser contemplates that it will enter into a similar arrangement with the Company and its subsidiaries after consummation of the Offer. Moreover, cash dividends paid by the Company to the Purchaser in respect of the Shares would not be subject to federal income tax in the hands of the Purchaser.

The Purchaser understands that the existing tax treaty between the Netherlands and the United States generally provides for a preferential withholding tax rate of 5% (in lieu of the normal statutory rate of 30%) to be applied by the United States to dividends paid by United States corporations, such as the Purchaser, to corporations, such as CCAI, organized in the Netherlands, provided that the recipient corporation has held at least 25% of the distributing corporation's voting stock during the part of the distributing corporation's fiscal year preceding the distribution and its entire preceding fiscal year. The Purchaser also understands that under applicable Netherlands and Netherlands Antilles tax law no further taxes would be imposed on the receipt of such dividends by CCAI and the redistribution of such dividends by CCAI to CCAH and by CCAH to its stockholders, except for nominal taxes in the Netherlands and a 3% tax on net income imposed by the Netherlands Antilles. The Purchaser further understands that negotiations are being undertaken by the United States and the Netherlands with a view toward revision of the existing tax treaty between them. Such negotiations may result in the elimination of some or all of the benefits described in this paragraph.

The Company.

In connection with the Offer, the Company has filed a Schedule 14D-9 (the "Schedule 14D-9") with the Commission. Copies of the Schedule 14D-9 (and all exhibits thereto) may be examined and obtained in the manner described in Section 8 (except that it will not be available at the regional offices of the Commission). The following summary of matters contained in the Schedule 14D-9 is qualified in its entirety by reference to the Schedule 14D-9. The Schedule 14D-9 states, in part, as follows:

"Pursuant to unanimous vote of directors, the Board of Directors of the Company is of the view that the Offer being made pursuant to the terms of the Acquisition Agreement, as amended, is in the best interests of the Company and the holders of the Shares and the Board has consented to the Offer and recommends to the holders of the Shares that they accept the Offer. . . .

In taking such actions . . . the Board of Directors of the Company made certain judgments and considered, among other factors, the following:

(1) Pursuant to the terms of the settlement of a lawsuit instituted by the Securities and Exchange Commission (the "Commission") on March 17, 1978 (Securities and Exchange Commission v. Bank of Credit and Commerce International, S.A., et al., Civ. No. 78-0469), the Investors agreed to make a cash tender offer for any and all Shares at a price of not less

than \$15 per Share by March 17, 1979. The Consents reflecting such settlements with respect to the Investors have been modified with the Commission's consent since March 17, 1978 and currently provide, among other things, that the Investors intend to make a tender offer for any and all of the Shares at not less than \$25 per Share, subject to obtaining all required banking, other regulatory and other approvals.

- (2) The Acquisition Agreement, as amended between the Company and the Purchaser, CCAH, CCAI, the Investors and Symington, pursuant to which the Offer at \$33.80 per Share is being made, was negotiated on an arms' length basis at a time when such individuals and entities could not have been deemed to have been affiliates of the Company.
- (3) At the time that the Acquisition Agreement was entered into, The First Boston Corporation ("First Boston"), the independent financial advisor to the Company, advised the Board that the financial terms of the proposed tendered offer contemplated by the Acquisition Agreement were fair to the holders of the Shares, and in reliance on First Boston's opinion . . . the Board determined at the time the Acquisition Agreement was executed that the price at which the Offer would be made pursuant to the terms of the Acquisition Agreement was adequate.
- (4) The Board received a written opinion from First Boston dated December 31, 1981 that, in the opinion of First Boston, the price to be paid to the holders of the Shares pursuant to the tender offer proposed to be made under the Aquisition Agreement, as amended, was fair to such holders from a financial point of view.
- (5) All of the federal and state banking, regulatory and other necessary approvals required to make and consummate the Offer, including the necessary approvals of the Board of Governors of the Federal Reserve System, the Maryland Bank Regulations Board, the Maryland Bank Commissioner and the New York Banking Board have been obtained, and proceedings have been successfully concluded in Virginia, Tennessee and before the Comptroller of the Currency.
- (6) All of the other conditions to the Investors' obligation(s) to cause the Offer to be made by the Purchaser on their behalf have been satisfied.
- (7) The Board has been advised by the Investors and their affiliates that they are in a position to bring substantial new capital and banking business to the Company.
- (8) The Board has received a written opinion from First Boston dated February 25, 1982 that, in the opinion of First Boston, the price to be paid to the holders of the Shares pursuant to the Offer is fair to such holders from a financial point of view. . . . "

A copy of the First Boston opinion dated February 25, 1982, referred to above, is attached hereto as Annex B. The Schedule 14D-9 also states as follows:

"The Company has agreed to pay First Boston an advisory fee of \$200,000 for financial advisory services, including any opinions rendered, and in the event that all or a portion of the Company is sold, other than in isolated sales of its common stock through non-negotiated transactions executed on the American Stock Exchange, or an agreement (such as the Acquisition Agreement) to sell all or a portion of the Company has been reached prior to February 14, 1982, First Boston will be paid a consummation fee equal to (a) .5% of the aggregate value of the transaction up to a price of \$25.00 per share, (b) plus .6% of the aggregate value in excess thereof up to \$32.50 per share, (c) plus .7% of the aggregate value in excess thereof up to \$32.50 per share, (d) plus .8% of the incremental value in excess thereof. However, the advisory fee paid to First Boston will be credited against the consummation fee described above. The Company has also agreed to reimburse First Boston for certain expenses and to indemnify it against liabilities."

Financial Advisor

The Investors and the other stockholders of CCAH engaged Bank of Credit and Commerce International, S.A. ("BCCI"), a banking institution established under the laws of Luxembourg, to provide financial advisory services with respect to the acquisition of Shares by the Purchaser, including the Offer. BCCI served as an investment advisor to the Investors in connection with their initial purchases of Shares. BCCI has rendered a variety of advisory and other services to the Investors, CCAH and CCAI and has frequently served as a communications link among such persons and United States counsel representing them with respect to their investment in the Company and the Offer. As part of its services, BCCI has evaluated the Offer price from the point of view of the Purchaser and its stockholders, including the Investors and prospective CCAH stockholders (none of whom is purchasing more than 10% of the CCAH Stock), and has generally advised them that the Offer would make an attractive long-term investment. BCCI has not been engaged to render, and has not rendered, any opinion, report or appraisal with respect to the fairness of the Offer or the Offer price from the standpoint of the Company's stockholders generally, nor will it solicit tenders of Shares pursuant to the Offer. In addition to its commercial banking services, BCCI is regularly engaged in providing financial advice to its clients. BCCI has acted as a financial advisor with respect to the Offer because of BCCI's prior financial advisory relationship with the Investors and prospective CCAH stockholders. BCCI has not determined what fees will be charged for the investment advisory and other services described above. See Section 16 for information regarding the Dealer Manager.

THE OFFER

1. Terms of the Offer. Upon the terms and subject to the conditions set forth in the Offer, the Furchaser will accept for payment and purchase all Shares which have been properly tendered on or prior to the Expiration Date (as hereinafter defined) and not withdrawn in accordance with Section 3 of this Offer to Purchase. The "Expiration Date" for the Offer will be 10:00 A.M., New York City time, on Thursday, April 8, 1982, unless the Purchaser, in its sole discretion, extends the Offer as provided in Section 13, in which event the term "Expiration Date" shall mean the latest time and date on which the Offer as so extended expires.

The Company has advised the Purchaser that as of February 26, 1982 there were 6,688,926 Shares outstanding. As stated above (see "Introduction"), Messrs. Adham, Fulaij and Darwaish and CCAI owned an aggregate of 1,244,040 Shares, or approximately 18.6% of the Shares outstanding as of such date. See Section 9.

2. Acceptance for Payment, Purchase and Payment. Upon the terms and subject to the conditions of the Offer (including the terms and conditions of any extension thereof), the Purchaser will purchase by accepting for payment, and will pay for, all Shares properly tendered by the Expiration Date, and not thereafter properly withdrawn. Such purchase, acceptance and payment will be made by the Purchaser promptly after 12:00 midnight, New York City time, on March 23, 1982; provided that Shares entitled to withdrawal rights during any additional withdrawal period (as defined in Section 3) will be purchased and paid for promptly after the expiration of such additional withdrawal period.

For purposes of the Offer, the Purchaser shall be deemed to have purchased tendered Shares, and ownership of such Shares shall pass to the Purchaser, if, as and when the Purchaser gives oral or written notice to the Depositary of its acceptance of such Shares for payment pursuant to the Offer. The Depositary, as agent for the tendering stockholders, will transmit payments to tendering stockholders promptly following receipt of payment from the Purchaser. If any tendered Shares are not purchased pursuant to the terms and conditions of the Offer (see Sections 5 and 15), or if certificates are submitted for more Shares than are tendered, certificates for such unpurchased Shares will be returned, without expense to the tendering stockholder, promptly after the expiration, termination or withdrawal of the Offer.

3. Withdrawal Rights. Tenders of Shares made pursuant to the Offer are irrevocable, except that Shares tendered pursuant to the Offer may be withdrawn at any time until 12:00 midnight, New York City time, on March 23, 1982 and, unless theretofore purchased by the Purchaser pursuant to the Offer, may also be withdrawn at any time after April 30, 1982. Additionally, if another bidder (other than the Company) commences a tender or exchange offer for some or all of the Shares, Shares tendered pursuant to the Offer which have not theretofore been accepted for payment by the Purchaser in accordance with the terms of the Offer may also be withdrawn on the date of, and for 10 business days following, the commencement (other than commencement by press release) of such other offer (an "additional withdrawal period"), provided that the Purchaser has received notice or otherwise has knowledge of the commencement of such other offer. For the purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or federal holiday and consists of the time period from 12:01 A.M. through 12:00 midnight, Eastern time:

To be effective, a written, telegraphic, telex or facsimile transmission notice of withdrawal must be timely received by the Depositary (and only the Depositary, not the Forwarding Agent) at its address set forth on the back cover of this Offer to Purchase. Any notice of withdrawal must specify the name of the person having deposited the Shares to be withdrawn, the number of Shares to be withdrawn and, if certificates representing such Shares have been delivered or otherwise identified to the Depositary or the Forwarding Agent, the name of the registered holder(s) of such Shares as set forth in such certificates. If the certificates have been delivered to the Depositary or the Forwarding Agent, then prior to the release of such certificates the tendering stockholder must also submit the serial numbers shown on the particular certificates evidencing such Shares and the signature on his notice of withdrawal must be guaranteed by a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or by a commercial bank or trust company having an office or correspondent in the United States (an "Eligible Institution"). All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Purchaser, in its sole discretion, whose determination shall be final and binding.

If the Purchaser is delayed in its purchase of Shares, or is unable to purchase Shares pursuant to the Offer for any reason, then, without prejudice to the Purchaser's rights under Sections 13 and 15, the Depositary may, nevertheless, on behalf of the Purchaser, retain tendered Shares and such Shares may not be withdrawn except to the extent that tendering stockholders are entitled to withdrawal rights as set forth in this Section 3.

4. Certain Tax Consequences. Sales of Shares pursuant to the Offer will be taxable transactions for federal income tax purposes under the Internal Revenue Code of 1954, as amended, and may also be taxable transactions for state, local and other tax purposes.

A stockholder who receives cash pursuant to the Offer in exchange for his Shares will recognize gain or loss for federal income tax purposes equal to the difference between the amount of cash received and the stockholder's basis in his Shares. If the stockholder holds his Shares as a capital asset at the time of sale, such gain or loss will be long-term or short-term capital gain or loss, depending on whether the holding period for such Shares is more than 12 months or is 12 months or less.

Stockholders are urged to consult their tax advisors to determine the particular tax consequences of the Offer to them, including the application and effect of state and local income and other tax laws.

5. Procedure for Accepting the Offer and Tendering Shares. Except as set forth below, in order for a holder of Shares to tender properly any of his Shares pursuant to the Offer, certificates for such Shares, together with a properly completed and duly executed Letter of Transmittal or facsimile thereof, with any signature guarantees required by Instruction 1 of the Letter of Transmittal and any other documents required by the Instructions to the Letter of Transmittal, must be received by the

Depositary or the Forwarding Agent (as agent for tendering stockholders for forwarding to the Depositary) at their respective addresses set forth on the back cover of this Offer to Purchase by the Expiration Date. Signatures on all Letters of Transmittal must be guaranteed by an Eligible Institution, unless Shares are tendered (i) by a registered holder of Shares who has not completed the box entitled "Special Payment Instructions" or the box entitled "Special Delivery Instructions" on the Letter of Transmittal or (ii) for the account of any Eligible Institution. If the certificates are registered in the name of a person other than the signer of the Letter of Transmittal, the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates, with the signatures on the certificates or stock powers guaranteed as aforesaid. The method of delivery of certificates for Shares and all other required documents is at the election and risk of the owner, but if sent by mail it is recommended that they be sent by registered mail, properly insured, with return receipt requested.

If a stockholder desires to tender Shares pursuant to the Offer and such stockholder's certificates for Shares are not immediately available or such stockholder cannot deliver his certificates and all other required documents to the Depositary or the Forwarding Agent prior to the Expiration Date, such Shares may nevertheless be tendered, provided that all of the following conditions are satisfied:

- (a) such tenders are made by or through an Eligible Institution;
- (b) a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form provided by the Purchaser herewith is received by the Depositary (and only the Depositary, not the Forwarding Agent) as provided below prior to the Expiration Date; and
- (c) the certificates for all tendered Shares, in proper form for transfer, together with a properly completed and duly executed Letter of Transmittal or facsimile copy thereof and all other documents required by the Letter of Transmittal are received by the Depositary (and only the Depositary, not the Forwarding Agent) within eight New York Stock Exchange ("NYSE") trading days after the date of such Notice of Guaranteed Delivery.

The Notice of Guaranteed Delivery may be delivered by hand, or transmitted by telegram, telex, facsimile transmission or letter, to the Depositary (and only the Depositary, not the Forwarding Agent) and must include a Guarantee by an Eligible Institution in the form set forth in such notice.

Payment for Shares tendered pursuant to the Offer will in all cases be made by the Depositary only after receipt by the Depositary of certificates therefor, a properly completed and duly executed Letter of Transmittal or a facsimile thereof and all other required documents.

A tender of Shares by any of the procedures set forth above will constitute a binding agreement between the tendering stockholder and the Purchaser in accordance with the terms and subject to the conditions set forth in the Offer.

By executing the Letter of Transmittal as set forth above, a tendering stockholder irrevocably appoints designees of the Purchaser as proxies, with full power of substitution, to the extent of such holder's rights with respect to the Shares tendered by such stockholder and accepted for payment by the Purchaser (and any and all other Shares and other securities issued or issuable in respect of such Shares after March 2, 1982), effective when, and only to the extent that, the Purchaser deposits payment for such Shares with the Depositary. Upon such deposit of payment, all prior proxies given by such stockholder with respect to such purchased Shares or other securities will be, without further action, revoked and no subsequent proxies may be given. The Purchaser's designees will, with respect to such Shares or other securities, be empowered to exercise all voting and other rights of such stockholders as they in their sole discretion may deem proper in respect of any annual, special or adjourned meeting of the Company's stockholders, or otherwise.

All questions as to the form of all documents and the validity, eligibility (including time of receipt) and acceptance of tendered Shares will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding. The Purchaser reserves the absolute right to reject any or all tenders of any particular Shares not in appropriate form or the acceptance of which would, in the opinion of the Purchaser's counsel, be unlawful. The Purchaser also reserves the absolute right to waive any of the conditions of the Offer or any defect or irregularity in the tender of any Shares, and the Purchaser's interpretation of the terms and conditions of the Offer (including the Letter of Transmittal and the Instructions thereto) will be final. No tender of Shares will be deemed to have been properly made until all defects and irregularities have been cured or waived. None of the Purchaser, the Depositary, the Forwarding Agent, the Dealer Manager or the Information Agent shall be under any duty to give notification of any defects or irregularities in tenders or shall incur any liability for failure to give any such notification.

6. Price Range of Shares; Dividends. The Shares are listed and traded on the American Stock Exchange, Inc. (the "ASE"). The table below sets forth the high and low sale prices per Share on the ASE, as reported in published financial sources, for the periods indicated.

1978	High	Low
First quarter	\$13%	\$11
Second quarter	14%	115%
Third quarter	16	131/8
Fourth quarter		2070
(through October 30)	16	143/4
(October 31 through December 31 — after ex-dividend date for		/-
5% stock dividend)	151/2	141/4
	20 /2	/-
1979		101/
First quarter	15	121/4
Second quarter	191/4	131/8
Third quarter Fourth quarter	201/8	16%
	107/	101/
(through October 30)	19%	161/4
5% stock dividend)	101/	107/
5% stock dividend)	181/8	16%
1980		
First quarter	185/8	16
Second quarter	233/8	165⁄s
Third quarter	24	201/2
Fourth quarter		
(through October 30)	223/8	201/4
(October 31 through December 31 - after ex-dividend date for		
5% stock dividend)	22 %	181/4
1981		
First quarter	223/4	195/8
Second quarter	263/4	203/s
Third quarter	293/8	2434
Fourth quarter	31	271/4
1982		
First quarter (through March 1)	315/8	271/2
(through warch 1)	317/8	2172

On February 8, 1978, the last full day of trading prior to the announcement by the Company that certain persons (later identified as the Investors and Mr. Sultan) had purchased a substantial number of Shares, the reported closing price per Share was \$13. On March 16, 1978, the last full day of trading prior to the filing by the Investors and others of statements on Schedule 13D with the Commission indicating, among other things, that a cash offer to acquire any and all Shares at a price of at least \$15 per Share might be made, the reported closing price per Share was \$11%. On June 5, 1979, the last full day of trading before the Investors advised the Company that they were prepared to pay \$22.50 per Share, the reported closing price per Share was \$13½. On July 27, 1979, the last full day of trading before the Consents were modified to provide that the proposed cash tender offer would be made at a price of at least \$25 per Share, the reported closing price per Share was \$16%. On April 18, 1980, the last full day of trading before it was publicly disclosed that representatives of Mr. Adham and the Company had discussed the possible acquisition by CCAI of any and all Shares at \$28.50 per Share in cash, the reported closing price per Share was \$17½. On May 20, 1980, the last full day of trading before it was publicly announced that the Investors and the Company had reached an agreement-in-principle with respect to the making of the Offer, the reported closing price per Share was \$23. On March 1, 1982, the last full day of trading prior to the commencement of the Offer, the reported closing price per Share was 31%. None of the per Share prices referred to in this Section 6 has been adjusted to reflect 5% stock dividends subsequently paid by the Company through 1980. Stockholders are urged to obtain a current market quotation for the Shares.

The Company has advised the Purchaser that the Company paid cash dividends of \$.37, \$.38½ and \$.40 per Share (as adjusted for stock dividends) in its fiscal years ended December 31, 1979, 1980 and 1981, respectively. The Company has also advised the Purchaser that the Company has declared a regular quarterly cash dividend in the amount of \$.10 per Share payable on May 3, 1982 to stockholders of record on March 10, 1982. Tendering stockholders will be entitled to receive such dividend.

A loan agreement (the "Chase Agreement"), dated September 30, 1980, between the Company and The Chase Manhattan Bank, N.A. prohibits the Company from paying any dividends (other than stock dividends), authorizing any other distribution on shares of the Company or making any payment on account of the purchase, acquisition, redemption or other retirement of such shares in any fiscal year if such payments would exceed 40% of the net operating earnings after securities gains or losses of the Company and its subsidiaries, on a consolidated basis, for the fiscal year immediately preceding any such payment. The Company has advised the Purchaser that as of February 26, 1982, the Company had available for the balance of 1982 (exclusive of the cash dividends of \$.10 per Share to be paid on May 3, 1982, see above) approximately \$7.2 million for such payments under the terms of the Chase Agreement. The Company has also advised the Purchaser that as of March 2, 1982 \$19,500,000 were outstanding under such loan. The Purchaser contemplates that if it acquires control of the Company pursuant to the Offer, it will recommend that the Company increase the rate of its regular quarterly cash dividends after the Offer, consistent with the Chase Agreement, the Company's earnings performance and the maintenance by the Company of certain capital ratios agreed upon by CCAH, CCAI and the Purchaser and the Federal Reserve Board. See "Special Factors" and Sections 10 and 12.

The Company has followed a policy of paying a 5% stock dividend in respect of the Shares and the Class A Shares in December of each year. In view of the pendency of the Offer, the Company did not declare or pay such a stock dividend in 1981. The Purchaser has made no determination as to whether, if it acquires control of the Company pursuant to the Offer, it will recommend that the Company continue its past practice of paying an annual 5% stock dividend on the Shares and the Class A Shares.

7. Effect of the Offer on Stock Exchange Listing, Market for the Shares and Registration under the Exchange Act. The purchase of Shares pursuant to the Offer will reduce the number of Shares that may otherwise trade publicly, which could adversely affect the liquidity and market value of the remaining Shares held by the public. Depending upon the number of Shares purchased pursuant to the Offer, the Shares may no longer meet the requirements for continued listing on the ASE and may therefore be delisted therefrom. Published guidelines of the ASE indicate that it would consider delisting the Shares if the number of publicly held Shares (exclusive of holdings of officers, directors, controlling stockholders or other family or concentrated holdings) is less than 200,000, if there are fewer than 600 stockholders of record or fewer than 400 holders of 100 or more Shares, or if the aggregate market value of the publicly held Shares (exclusive of management and concentrated holdings) does not exceed \$1,000,000. The Company has advised the Purchaser that as of February 26, 1982 there were 6,688,926 Shares outstanding, held by approximately 9,039 holders of record and 2,093 holders of 100 or more Shares. If the Shares no longer meet the requirements of the ASE for continued listing and the Shares are delisted, the market for the Shares could be adversely affected. In addition, it is possible that if the Shares are delisted, the ASE might take action to delist the Class A Shares.

If the ASE were to delist the Shares (and the Class A Shares), it is possible that the Shares (and the Class A Shares) would continue to trade in the over-the-counter market and that price quotations might be available through the Automated Quotation System of the National Association of Securities Dealers, Inc. or other sources. The extent of the public market for the Shares (and the Class A Shares) and the availability of such quotations would, however, depend upon the number of holders of Shares (and Class A Shares) at such time, the interest in maintaining a market in the Shares (and the Class A Shares) on the part of securities firms, the possible termination of registration under the Exchange Act, as described below, and other factors. The outstanding Shares (and Class A Shares) are presently "margin securities" under the rules of the Federal Reserve Board, which has the effect, among other things, of allowing brokers to extend credit on the collateral of such securities. Depending on factors similar to those described above regarding listing and market quotations, the Shares (and the Class A Shares) might no longer constitute "margin securities" for the purposes of the Federal Reserve Board's margin regulations and, therefore, could no longer be used as collateral for margin loans made by brokers.

Registration of the Shares under the Exchange Act may be terminated upon application of the Company to the Commission if the Shares are not listed on a national securities exchange and there are fewer than 300 record holders of Shares. However, because the Offer is not being made for the Class A Shares, which are separately registered under the Exchange Act, termination of registration under the Exchange Act of the Shares would not affect (i) the applicability of the short-swing profit provisions of Section 16(b) of the Exchange Act to transactions in any of the classes of the Company's equity securities, consisting of the Shares, the Class A Shares and the Preferred Shares, (ii) the requirement to furnish a proxy statement to the holders of Class A Shares in connection with stockholders' meetings at which holders of such securities are entitled to vote or (iii) the requirement on the part of the Company to file certain financial and other information in annual, quarterly and other reports with the Commission. The Purchaser has made no determination with respect to whether, if fewer than 300 recordholders of Shares remain following consummation of the Offer, it would seek to terminate Exchange Act registration of the Shares. The Purchaser anticipates that the Class A Shares will not be eligible for deregistration under the Exchange Act as a result of the Offer, because the Offer is not being made for the Class A Shares, which the Company has advised the Purchaser were held of record by more than 300 persons as of February 26, 1982.

8. Certain Information Concerning the Company. The Company is a Virginia corporation with its principal executive offices at 1701 Pennsylvania Avenue, N.W., Washington, D.C. 20006. Its telephone number at such offices is (202) 457-7900. According to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1980 filed with the Commission (the "1980 10-K"), the Company is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), and is primarily engaged through subsidiary companies in commercial banking. The Company has a majority interest in 11 commercial banks and a control-

ling interest in another commercial bank by virtue of being its principal stockholder. Seven of the Company's banks are national banks and five are organized under the banking laws of the various states. The Company's banking operations are principally concentrated in Virginia, Maryland and the District of Columbia, where nine of the banks are located — six in Virginia, two in Maryland and one in the District of Columbia. The Company is the only bank holding company owning controlling interests in commercial banks doing business in all three of the jurisdictions comprising the Washington metropolitan area. Of the remaining banks owned by the Company, two are located in New York and one in Tennessee. In addition, the Company owns a majority of the outstanding stock of a mortgage banking company located in Washington, D.C.

Set forth on the next page is certain summary financial information for the Company's last two fiscal years excerpted or derived from a press release of the Company dated February 4, 1982 and from information furnished by the Company to the Purchaser. More comprehensive financial information for the year ended December 31, 1980 is included in the 1980 10-K and other documents filed by the Company with the Commission and more comprehensive financial information for the year ended December 31, 1981 will be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1981 to be filed with the Commission prior to the Expiration Date. The following summary is qualified in its entirety by reference to such documents and all of the financial information and notes contained therein. Such documents may be examined and copies may be obtained from the offices of the Commission and the ASE in the manner set forth below.

FINANCIAL GENERAL BANKSHARES, INC. AND SUBSIDIARIES SUMMARY FINANCIAL INFORMATION

(All figures are in thousands of dollars, except per Share data and number of Shares outstanding)

	Year Ended December 31,		
	1981	1980	
INCOME STATEMENT:	(au	(audited)	
Net Interest Income Before Taxes	\$ 124,980	\$ 109,789	
Provision for Loan Losses	3,282	3,237	
Other Income	20,171	15,974	
Other Expenses	116,418	102,336	
Income Before Federal Income Taxes and Security Losses	25,451	20,190	
Net Income	20,060	16,384	
BALANCE SHEET (at end of period):			
Total Assets	\$2,626,670	\$2,426,622	
Loans	1,360,784	1,305,738	
Investment Securities	551,070	597,037	
Short-Term Investments	411,337	233,446	
Demand Deposits	835,889	854,788	
Savings Deposits	460,721	404,240	
Time Deposits	898,227	788,188	
Foreign Deposits	6,050	6,315	
Total Deposits	2,200,887	2,053,531	
Total Liabilities	2,431,438	2,249,310	
Minority Interest	39,035	38,128	
Total Stockholders' Equity	156,198	139,183	
PER SHARE DATA (a) (Shares and Class A Shares):			
Net Income	\$ 2.75	\$ 2.24	
Book Value	21.35	19.00	
Average Shares Outstanding	7,289,000	7,285,000	

⁽a) Adjusted for stock dividends paid through December 12, 1980.

As directors of the Company, Messrs. Symington, Clifford and Quesada (who became directors after the execution of the Acquisition Agreement—see "Special Factors—Background") have been provided with certain non-public information with respect to the Company, including a cash flow projection for the Company for the 12 months ending December 31, 1982. Such cash flow projection reflects a decrease in cash of \$3,184,000 for such 12-month period. The following assumptions were made in preparing such projection: the operation of the Company will not change significantly; the Company will satisfy the loan repayment schedule under the Chase Agreement (see Section 6); the Company will repay the extension fees paid to the Company by or on behalf of the Purchaser (see Section 11); the "prime rate" will average 16.25% during 1982; cash dividends from the Company's subsidiary banks will exceed the level of dividends from such subsidiaries paid in 1981 by 10%; subsidiaries consolidated for tax purposes will generate taxable income to offset parent company tax losses; and dividends in respect of the Shares will not exceed the level of dividends in respect of the Shares paid in 1981.

The Company has indicated that such cash flow projection is inherently subject to uncertainty and matters beyond the control of the Company. This information is being included herein solely because it was furnished to Messrs. Symington, Clifford and Quesada as directors of the Company, and its inclusion herein is not an endorsement by the Purchaser, CCAI or CCAH of its accuracy.

Except as otherwise disclosed herein, the information concerning the Company contained in this Offer has been taken from or is based upon publicly available documents on file with the Commission and other public sources. Although the Purchaser has no knowledge that would indicate that any statements contained herein based on such information are untrue, the Purchaser cannot take responsibility for the accuracy or completeness of such information, or for any failure by the Company to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to the Purchaser.

The Company is subject to the informational filing requirements of the Exchange Act and in accordance therewith is obligated to file reports and other information with the Commission relating to its business, financial statements and other matters. Information, as of particular dates, concerning the Company's directors and officers, their remuneration, options granted to them, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company is required to be disclosed in proxy statements distributed to the Company's stockholders and filed with the Commission. Such reports, proxy statements and other information may be inspected at the Commission's offices in Room 6101, 1100 "L" Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1100, Federal Building, 26 Federal Plaza, New York, New York; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California. Copies may be obtained by mail, upon payment of the Commission's customary charges, by writing to its principal office at 500 North Capitol Street, N.W., Washington, D.C. 20549. Such material should also be available for inspection at the library of the ASE, 86 Trinity Place, New York, New York, New York

9. Certain Information Concerning the Purchaser, CCAI and CCAH. The Purchaser, which has its registered office at Suite 1100, 707 East Main Street, Richmond, Virginia, was organized in June 1981 for the purpose of making the Offer and engaging in related transactions, and has not, since its organization, engaged in any business except in connection with the Offer and related transactions. The Purchaser is a direct wholly owned subsidiary of CCAI and an indirect wholly owned subsidiary of CCAH. As of the date hereof the Purchaser does not own any Shares. Promptly after the Expiration Date, CCAI will contribute to the Purchaser an aggregate of 1,244,040 Shares, or approximately 18.6% of the Shares outstanding as of February 26, 1982.

CCAH, which has its principal office at 6 Pietermaai, Willemstad, Curacao, Netherlands Antilles, was organized in July 1978 for the purpose of making the Rescission Offer and a cash tender offer for any and all Shares and engaging in related transactions. CCAI, which is a wholly owned subsidiary of CCAH, has its principal office at 131-135 De Lairessestraat, Amsterdam, Netherlands. CCAI was organized in 1975 and has not, since its organization, engaged in any business except in connection with the Offer and related transactions, including the Rescission Offer. CCAH and CCAI do not own, and after the Offer are not expected to own, any significant non-cash assets other than the stock of their respective wholly owned subsidiaries and are not, and after the Offer are not expected to be, engaged in any activities other than in connection with the ownership of Shares.

As of the date hereof, the Investors and CCAI own an aggregate of 1,244,040 Shares, of which 879,336 Shares are owned by the Investors and 364,704 Shares are owned by CCAI (representing the 1,075,550 Shares acquired by the Investors in December 1977 and January 1978 plus Shares received by reason of the Company's payment of 5% stock dividends in December 1978, 1979 and 1980, less the 945 Shares transferred in the Rescission Offer—see "Special Factors—Background"). (By virtue of their holdings of CCAH Stock, the Investors may be deemed to beneficially own the 364,704 Shares owned by CCAI.) Prior to the Expiration Date, the Investors will contribute their 879,336 Shares to CCAH in exchange for CCAH Stock, CCAH will contribute all of such Shares to CCAI, and, as stated above, after the Expiration Date CCAI will contribute all of such Shares, as well as the 364,704 Shares now owned by it, to the Purchaser. In addition, the Investors, who are presently CCAH stockholders, and prospective CCAH stockholders intend to transfer approximately \$137.2 million in cash to CCAH in exchange for CCAH Stock. Each of the prospective CCAH stock-

holders is purchasing less than 10% of the CCAH Stock. Cash will be contributed to the Purchaser by CCAH through CCAI from time to time in such amounts as may be necessary to enable the Purchaser to purchase Shares pursuant to the Offer and pay related fees and expenses. See Section 10.

Information with respect to each of the executive officers and directors of the Purchaser, CCAI and CCAH is set forth in Annex A hereto. Messrs. Adham and Darwaish are the only persons who own, or immediately after the expiration of the Offer will own, in excess of 10% of the issued and outstanding CCAH stock. As contemplated by the Acquisition Agreement, the Investors and the prospective CCAH stockholders have appointed or are expected to appoint Mr. Symington as their voting representative with respect to all of the CCAH stock owned or to be owned by them. See Section 11. Messrs. Adham, Darwaish and Fulaij may be deemed to be controlling persons of CCAH, CCAI and the Purchaser. Information with respect to Messrs. Adham, Darwaish, Fulaij and Symington is also set forth in Annex A hereto.

Except as described in this Section 9, in Section 11 and under "Special Factors", neither the Purchaser, CCAI, CCAH nor, to their best knowledge, any of the persons listed in Annex A hereto or any majority owned subsidiary or associate of the Purchaser, CCAI, CCAH or of any of the persons so listed, owns any Shares, and neither the Purchaser, CCAI, CCAH nor, to their best knowledge, any of the other persons or entities referred to above, nor any of the respective executive officers, directors or subsidiaries of any of the foregoing, has effected any transactions in Shares during the past 60 days.

Except as described in this Section 9, in Sections 11 and 12 and under "Special Factors", (i) neither the Purchaser, CCAI, CCAH, nor, to their best knowledge, any of the persons listed in Annex A hereto, has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company, and (ii) there have been no contacts, negotiations or transactions since December 31, 1978 between the Purchaser, CCAI, CCAH or any of their subsidiaries or, to the best of the Purchaser's, CCAI's and CCAH's knowledge, any of the persons listed in Annex A hereto, and the Company or its affiliates concerning a merger, consolidation or acquisition, a tender offer or other similar acquisition of securities, an election of directors, or a sale or other transfer of a material amount of assets.

10. Source and Amount of Funds. If all of the Shares, other than those Shares presently owned by the Purchaser, are acquired pursuant to the Offer at a price of \$33.80 per Share, the amount of funds required to make such purchases is estimated to be approximately \$185 million, including the Purchaser's financial advisory, financing, legal, accounting, filing, solicitation and printing fees and expenses of approximately \$2 million (see Section 16). The Purchaser will obtain approximately \$137.2 million of such funds from CCAI, which will obtain such funds from CCAH. The Investors and the prospective stockholders of CCAH will provide CCAH with such funds through their purchase of CCAH Stock. See Section 9. The Investors and the prospective CCAH stockholders will obtain such funds from their personal resources. The Purchaser will obtain the balance of any funds necessary to purchase the Shares pursuant to the Offer through a loan from Banque Arabe et Internationale d'Investissement (B.A.I.I.) ("BAH"), Paris, France, which is not affiliated with the Purchaser or the Investors.

The Purchaser has entered into a loan agreement (the "Loan Agreement") with BAII pursuant to which BAII has agreed to lend the Purchaser up to \$50 million to be used in acquiring Shares and paying related expenses. The commitment will expire on March 2, 1983. The principal amount of the loan will be repayable in installments as follows: \$5 million in each of the fourth and fifth years after draw down, \$6 million in each of the sixth and seventh years after draw down, and \$8 million, \$9 million and \$11 million in the eighth, ninth and tenth years after draw down, respectively.

The loan will bear interest at a rate per annum which is equal to the sum of (i) the London Interbank Offered Rate ('LIBOR") as in effect from time to time, for three-month or, at the Purchaser's election after March 2, 1983, six-month periods, plus (ii) 1½% per annum. Interest is payable at the end of each such three- or six-month period, as the case may be. On March 2, 1982 the three-month and six-month LIBOR were quoted at $14^{13}\%$ and $14^{15}\%$ per annum, respectively.

The Loan Agreement provides that within 75 days prior to an interest or principal payment date, the Borrower will deposit with BAII the funds necessary for such payment. Interest shall accrue on such deposited funds in favor of the Borrower at a rate equal to the London Interbank Bid Rate less % of 1% per annum. However, if the required funds are not deposited with BAII within 55 days of the applicable interest or principal payment date, the Borrower will be required to pay BAII interest thereon at a rate of 101%% per annum from the date 55 days before such payment date through such payment date, or if earlier, the date on which such payment is made. Messrs. Adham and Fulaij will unconditionally and irrevocably guarantee the payment of such funds and such interest thereon.

In connection with the loan, BAII has been and shall be paid \$750,000 representing commitment fees of \$100,000 and management fees of \$650,000. The Purchaser will pay to BAII an additional commitment fee computed at the rate of ½ of 1% per annum on the daily unused amount of the loan, if any, calculated from July 1, 1982 to the earlier of the date on which the total amount of the loan is drawn down and March 2, 1983. The Purchaser may prepay without penalty the unpaid principal amount of the loan, in whole or in part, provided that the amount of any such optional prepayment in part shall equal \$2 million or an integral multiple thereof.

The Loan Agreement contains certain conditions precedent to the making of the loan, including, among other things, that the Purchaser purchase at least 2,130,052 Shares pursuant to the Offer. The Loan Agreement also contains certain covenants with respect to the operation of the Company during the term of the Loan, including, among other things, a covenant requiring the maintenance of the Company's consolidated tangible net worth (as defined) at not less than \$125 million, certain restrictions on the payment of dividends in respect of the capital stock of the Purchaser or the Purchaser's setting apart funds for the purchase thereof, and certain restrictions on the issuance of additional shares of capital stock of the Company. The Loan Agreement also contains customary "events of default" to the effect that, among other things, the outstanding principal amount of the loan, together with accrued interest thereon, will become due and payable in the event that, among other things, (i) principal payments are not made when due, (ii) any obligation for borrowed money of the Purchaser, CCAI, the Company or any "significant subsidiary" of the Company is declared due and payable prior to the expressed maturity thereof, (iii) the Purchaser fails to observe certain covenants contained in the Loan Agreement, (iv) certain events relating to the bankruptcy or insolvency of CCAI, the Purchaser, the Company or any "significant subsidiary" of the Company shall occur or (v) one or more judgments against any such entity in the aggregate amount of more than \$1 million remains unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 30 days.

In connection with the Loan Agreement, the Purchaser has agreed to pledge to BAII: (i) the Purchaser's right, title and interest in the money in a bank account established by the Purchaser to hold the funds obtained under the Loan Agreement until payment for tendered Shares is made pursuant to the Offer and (ii) all Shares acquired by the Purchaser. In addition, CCAI has agreed to pledge to BAII all Shares owned by it and all outstanding shares of the Common Stock, par value \$1.00 per share, of the Purchaser.

The Purchaser has been advised that BAII intends to syndicate the loan to several banks, with BAII acting as agent bank. Such syndication would be subject to the execution of a syndicated loan agreement which the Purchaser and BAII have agreed will be on substantially the same terms and conditions as those contained in the Loan Agreement.

The Purchaser expects to repay the borrowings referred to above principally from cash dividends paid by the Company to the Purchaser in respect of the Shares owned by the Purchaser and payments made by the Company to the Purchaser pursuant to a tax-sharing arrangement between them. As stated above (see "Special Factors — Purpose and Effects of the Offer"), if the Purchaser acquires control of the Company pursuant to the Offer, the Purchaser intends to recommend that the Company increase the rate of dividends paid in respect of the Shares above the rate currently

paid by the Company, consistent with the Chase Agreement, the Company's earnings performance and the maintenance by the Company of certain capital ratios agreed upon by CCAH, CCAI and the Purchaser with the Federal Reserve Board (see Section 12). CCAH, CCAI and the Purchaser have indicated to the Federal Reserve Board that in connection with the Purchaser's repayment of the borrowings, the Purchaser anticipates that after the Offer the Company will have funds available to pay (and will pay) cash dividends in respect of all of the Shares in amounts ranging from an aggregate of \$4.5 million in 1982 to an aggregate of \$14.4 million in 1991. In 1981, the Company paid an aggregate of \$2,676,000 in cash dividends in respect of all of the Shares, or \$.40 per Share. In the first quarter of 1982, the Company paid an aggregate of \$669,000 (or \$.10 per Share) in cash dividends; the Company has declared another regular quarterly cash dividend of \$.10 per Share (or an aggregate of \$669,000) payable on May 3, 1982 to stockholders of record on March 10, 1982. The Investors have agreed to provide the Purchaser with sufficient funds to repay the borrowings under the Loan Agreement to the extent that internally generated funds are insufficient.

The Loan Agreement and the other agreements referred to in this Section 10 have been filed as exhibits to the Schedule 14D-1 and the foregoing description of such documents is qualified in its entirety by reference to such exhibits. Copies of the Schedule 14D-1 and all exhibits thereto may be examined and obtained in the manner described in Section 8 (except that they will not be available at the regional offices of the Commission).

11. Description of the Acquisition Agreement. The Acquisition Agreement, as amended by an amendment dated as of December 31, 1981 (the "Amendment"), which was entered into after the New York State Banking Board initially failed to approve the application of the Purchaser, CCAH and CCAI to become bank holding companies with respect to the Bank of Commerce and Community State Bank (see Section 12), provides, among other things, that subject to the receipt of all required banking, regulatory and other approvals and the satisfaction of certain conditions, and provided that applicable law does not prohibit them from acquiring control of the Company, a cash tender offer will be made for any and all Shares at a per Share price of 158.3333% of the Company's Per Share Book Value as of the Value Date.

The Acquisition Agreement, as amended, provides that Shares must be purchased pursuant to the Offer by September 30, 1982, provided, however, if Shares are not purchased pursuant to the Offer on or before June 30, 1982, the Purchaser, CCAH, CCAI and the Investors are obligated to make cash payments (in addition to the \$1,890,000 of payments for one month extensions previously paid to the Company), to the Company for each of the months of July, August and September 1982 if Shares are not purchased before the beginning of such months, in the amount of \$775,000 per month. All such cash payments (including the \$1,890,000 previously paid to the Company) are to be refunded by the Company in the event Shares are purchased pursuant to the Offer or the Acquisition Agreement, as amended, is terminated. The Acquisition Agreement, as amended, further provides that if Shares are not purchased pursuant to the Offer by September 30, 1982, the Investors will not seek any further extensions or modification of the Consents, will be subject to divestiture of their Shares in accordance with the terms of the Consents and in a manner compatible with the interests of the Company, and will not commence a tender offer or otherwise purchase any Shares after September 30, 1982.

The Acquisition Agreement, as amended, also provides that the Investors would, among other things: (a) use their best efforts to ensure that the banking, regulatory and other necessary approvals which have been obtained are maintained, updated and kept in effect in a manner which will allow the Purchaser, CCAH and CCAI to acquire control of the Company pursuant to the terms of the Acquisition Agreement, as amended, and to obtain whatever further approval(s) may be necessary for the Purchaser, CCAH and CCAI and to acquire control of the Company pursuant to such terms: (b) deposit and maintain their Shares in escrow under an escrow agreement pursuant to which such Shares were to be delivered to the Company if the Investors fail to purchase Shares under the Offer (unless pursuant to Section 15 the Purchaser is not required to purchase such

Shares) and to the Investors in all other events; (c) enter into a voting agreement which appoints Mr. Symington as voting representative with respect to at least 60% of the shares of CCAH Stock owned by each Investor, such agreement to be applicable to and executed by each CCAH stock-holder and to continue until May 20, 1984 (see Section 9); and (d) not, nor would Messrs. Symington, Clifford or Quesada, nor any of their respective affiliates, conduct or support a proxy contest or seek to place persons on the Company's Board of Directors, make a tender or exchange offer with respect to the Company or take any action with respect to the Company's affairs which is inconsistent with the position of the Company's Board of Directors (such restrictions in the case of Messrs. Symington, Clifford and Quesada are not to prevent them from exercising their fiduciary duties in respect of the Company's stockholders in their capacities as Directors of the Company).

The Acquisition Agreement, as amended, also provides that the Company would, among other things: (a) so long as the Acquisition Agreement, as amended, remains in effect, nominate Messrs. Symington, Clifford and Quesada or their successors as Directors of the Company at each meeting of the Company's stockholders at which Directors are to be elected, except in the event that Messrs. Symington, Clifford and Quesada are required to resign from the Company's Board of Directors (as provided below); (b) so long as the Investors own, directly or indirectly, any Shares, have a right of first refusal with respect to such Shares in the event any of the Investors, prior to the consummation of the Offer, received from a third person a bona fide offer to purchase any or all of such Shares and determined to sell such Shares; (c) maintain the character of its business and operate its business in the usual, regular and ordinary manner; (d) not, without CCAH's consent, amend the Ar icles, issue or sell shares of capital stock, or dispose of any of its subsidiaries or take any similar actions; (e) consistent with prudent business practice, maintain its policy of paying a regular quarterly cash dividend of \$.10 per Share and, at its election, an annual stock dividend in respect of the Shares and the Class A Shares not in excess of 5%; and (f) not solicit any other potential acquisition of the Company through an offer for all or a controlling portion of the Shares or all or any substantial portion of the Company's assets.

The Acquisition Agreement also provides that the Company and the Investors would seek to dismiss the Company Action. As stated above (see "Special Factors — Background"), the Company Action was dismissed on July 25, 1980.

The Acquisition Agreement, as amended, may be terminated by the mutual consent of the Company and the Investors or by the Investors, if, among other things: (a) the Company or any of its subsidiaries takes corporate action to oppose, discourage approval of, or encourage disapproval of any of the applications filed in connection with obtaining the necessary banking, regulatory and other approvals with respect to the Offer or to jeopardize any existing approvals necessary for the Purchaser, CCAH and CCAI to acquire control of the Company; (b) the Company files litigation seeking to enjoin, delay or oppose the Offer; (c) the United States Congress passes any legislation placing a moratorium on the Offer; or (d) the Company materially breaches the confidentiality agreement entered into by the Company and the Investors in connection with the Acquisition Agreement. If the Investors terminate the Acquisition Agreement and, in addition, notify the Company of their intention to conduct a proxy contest, Messrs. Symington, Clifford and Quesada are to resign from the Company's Board of Directors and the Investors will have 45 days from the date of such resignations to make the Offer. The Acquisition Agreement provides that it may be amended by an instrument in writing signed by the party against whom enforcement of the amendment is sought.

To reflect the execution of the Amendment, CCAH, CCAI, the Investors, Mr. Symington and American Security Bank, N.A., as escrow agent, will enter into an amendment to the escrow agreement referred to above, and each of the Investors and the prospective stockholders of CCAH and Mr. Symington will enter into an amendment to the voting agreement referred to above.

The Acquisition Agreement, the Amendment and the related agreements referred to above have been filed with the Commission as exhibits to the Schedule 14D-1 and the foregoing description of such agreements is qualified in its entirety by reference to such exhibits. Copies of the Schedule 14D-1 may be examined and obtained in the manner described in Section 8 (except they will not be available at the regional offices of the Commission).

12. Certain Legal Matters. Except as set forth in this Section 12, based on its examination of publicly available information with respect to the Company, the Purchaser is not aware of any licenses or other regulatory permits which appear to be material to the business of the Company and which appear likely to be adversely affected by the acquisition of Shares by the Purchaser pursuant to the Offer. If the Purchaser's acquisition of Shares pursuant to the Offer should require the approval of, or other action by, any domestic or foreign governmental or administrative agency, it is the Purchaser's present intention that such approval or action will be sought, but there is no present intent to delay the acquisition of Shares tendered pursuant to the Offer pending the outcome of any such matter. There is no assurance that any such approval or action, if needed, will be obtained, or that adverse consequences may not result to the Company's business, or that certain parts of the Company's business might not have to be disposed of, in order to obtain such approval or other action. See Section 15.

The Bank Holding Company Act. The Bank Holding Company Act and Regulation Y promulgated thereunder provide that a company, such as CCAH, CCAI or the Purchaser, may not acquire direct or indirect control of a bank holding company, such as the Company, unless prior approval is obtained from the Federal Reserve Board. Pursuant to the Acquisition Agreement, on August 27, 1980, the Board of Directors of First American adopted a resolution stating First American's "intention" to "affiliate" with CCAI and CCAH under Maryland law, thereby removing the state law obstacle which had prevented the Federal Reserve Board's review of the Federal Application, as originally filed on October 19, 1978 (see "Special Factors - Background" above and "Maryland Banking Law" below). Subsequently, CCAH and CCAI resubmitted the Federal Application to the Federal Reserve Board, and on November 28, 1930, the Federal Application was formally accepted for processing. On April 23, 1981, the Federal Reserve Board conducted an informal meeting, on the record, attended by representatives of CCAH and CCAI. Representatives of the banking authorities of Maryland and New York and of the Comptroller of the Currency, and the Commissioner of Financial Institutions for the Commonwealth of Virginia (the "Virginia Commissioner") also attended the meeting. The Virginia Commissioner submitted written questions, made an oral presentation at the meeting and submitted a closing statement at the meeting generally objecting to the approval of the Federal Application. CCAH and CCAI subsequently responded to such objections in writing. In connection with the Federal Reserve Board's review of the Federal Application, the Purchaser, CCAI and CCAH committed to the Federal Reserve Board to inject \$12 million of equity capital into the Company after consummation of the Offer for the purpose of strengthening the Company and its subsidiary banks. The Purchaser, CCAI and CCAH also committed that, until the combined long-term debt to equity ratio of CCAH, CCAI, the Purchaser and the Company (parent only) falls below .3:1, they will not (a) acquire the Class A Shares by using such \$12 million or by incurring any debt that would raise the combined long-term debt to equity ratio of CCAH, CCAI, the Purchaser and the Company (parent only) above .405:1; (b) incur debt in an amount greater than \$50 million to make the Offer without the prior approval of the Federal Reserve Board; or (c) cause the Company to pay any dividends that would cause the Company's consolidated equity and reserve/asset ratio to fall below 6.8%.

On August 25, 1981, the Federal Reserve Board issued an order approving in all respects the Federal Application. The order provided that the acquisition of the Company by CCAH, CCAI and the Purchaser could not be made before September 24, 1981 or later than November 25, 1981 unless such period were extended for good cause by the Federal Reserve Board or the Federal Reserve Bank of Richmond. On November 16, 1981, the Federal Reserve Bank of Richmond extended the time by which the acquisition must be made through February 25, 1982; such time has been further extended through May 24, 1982.

On or about September 24, 1981, Option Advisory Service, Inc. filed a petition in the United States Court of Appeals for the Second Circuit seeking review of the Federal Reserve Board's order. CCAH, CCAI and the Purchaser moved to intervene in that proceeding, and that motion was granted.

Upon a motion by CCAH, CCAI, the Purchaser and the Federal Reserve Board to dismiss the proceeding, such petition was dismissed by the Court of Appeals.

Maryland Banking Law. As stated above (see "Special Factors — Background"), Maryland banking law generally provides that it is unlawful for any banking institution doing business under Maryland law, such as First American (which, as previously indicated, is a majority owned subsidiary of the Company), to have an "affiliate", such as CCAH, CCAI or the Purchaser, provided, however, that a Maryland banking institution which "intends" to have an "affiliate" offering services to the public of a financial, fiduciary or insurance nature, shall be permitted to do so if authorized by state banking authorities. The law provides that such authorization will be given only if it is deemed reasonably required to preserve and protect the welfare of such Maryland banking institution and the general economy of Maryland, and will not be detrimental to the public interest and the stability of such banking institution.

As indicated above (see "Bank Holding Company Act"), after the execution of the Acquisition Agreement the Board of Directors of First American on August 27, 1980, adopted a resolution stating First American's "intention" to "affiliate" with CCAI and CCAH. Subsequently, First American submitted an application to the Maryland banking authorities indicating First American's "intention" to "affiliate" with the Purchaser, CCAI and CCAH, and CCAH, CCAI, the Purchaser and Messrs. Adham and Darwaish submitted an application to such authorities to acquire a controlling interest in the Company and indirectly in First American. On June 25, 1981, the Maryland Bank Regulations Board issued an order approving First American's application, and on June 26, 1981, the Maryland Bank Commissioner approved the application of CCAH, CCAI, the Purchaser and Messrs. Adham and Darwaish.

New York Banking Law. New York banking law generally prohibits, among other things, the direct or indirect acquisition by any person of more than 10 percent of the voting stock, or of the right to vote more than 10 percent of the voting stock, of two or more banking institutions, unless the New York banking authorities first approve such acquisition. In determining whether or not to approve an application to make such an acquisition, the New York banking authorities consider, among other things, whether the transaction is consistent with the state policy to insure the safe and sound conduct of banking organizations, to eliminate destructive competition among such banking organizations, to maintain public confidence in such business and to protect the public interest, needs and convenience and the interests of depositors, creditors and stockholders.

Bank of Commerce and Community State Bank, two subsidiary banks of the Company, are located in New York. Because the acquisition of the Company would also be an indirect acquisition of the Company's interest in such banks, on January 29, 1979, CCAH and CCAI formally submitted to the New York Banking Department an Application for Prior Approval of Action to become Bank Holding Companies pursuant to Section 142 of the New York Banking Law (the "New York Application"). On May 15, 1981, CCAH and CCAI submitted an amendment to the New York Application reflecting developments that had occurred since the initial filing. On September 21, 1981, the New York Banking Department conducted an informal hearing, on the record, at which interested parties were permitted to express their views regarding the New York Application. On November 19, 1981, the Banking Board considered but, on a vote of five to five with one member absent and one abstention, failed to approve the New York Application, which required the affirmative vote of eight members. The Superintendent of Banking and the Staff of the Banking Department of the State of New York had recommended approval of the New York Application. On the same day the Investors announced that they were "considering various alternatives that may be available to them which would allow them to proceed with the tender offer."

On January 28, 1982, the Purchaser, CCAH and CCAI and the Bank Purchasers entered into the Bank Agreement pursuant to which the Purchaser, CCAH and CCAI, upon the Purchaser's acquisition of a majority of the voting power of the Company, have agreed to cause Empire to grant the Bank

Purchasers the exclusive irrevocable right to purchase (the "Purchase Right"), on or before March 3, 1983 (or such earlier date as may be applicable as a result of the termination of the Bank Agreement as provided below) the 1,026,614 Bank of Commerce Shares owned by Empire (representing approximately 67.6% of the outstanding Bank of Commerce Shares) at a per share price equivalent to 1.6 times the Bank of Commerce's "book value per share", determined as of the last day of the last calendar quarter prior to the exercise of the Purchase Right. See "Special Factors - Purpose and Effects of the Offer". (The Bank Agreement has been filed as an exhibit to the Schedule 14D-1 and the description herein of the Bank Agreement is qualified in its entirety by reference to such exhibit.) The Bank Agreement defines "book value per share" as total stockholders' equity of the Bank of Commerce as of such date, divided by the total number of Bank of Commerce Shares outstanding as of such day. The book value per share of the Bank of Commerce as of December 31, 1981 was \$19.08, making the purchase price at the present time that would be payable upon the exercise of the Purchase Right equal to approximately, \$31,341,000. The purchase price payable upon the exercise of the Purchase Right will be payable entirely in cash or, at the election of the Bank Purchasers exercising the Purchase Right, in cash in the amount of 50% of the purchase price and by the delivery of promissory notes (the "Notes") in the aggregate principal amount of the remaining 50% of the purchase price. The principal amount of the Notes will be payable in two equal annual installments, on the first and second anniversaries of the exercise of the Purchase Right. The Notes will bear interest at the prime commercial lending rate from time to time announced by the Chase Manhattan Bank, N.A. at its head office (the "Prime Rate"), commencing with the Prime Rate in effect at the opening of business on the first day of the month in which the Notes are originally issued, with interest accruing during each subsequent month of the term of the Notes at the Prime Rate in effect at the opening of business on the first day of such month. The aggregate amount of the principal of, premium, if any, and interest on the Notes will be secured by one or more unconditional, irrevocable letters of credit in favor of Empire having a term of not less than the term of the Notes.

Under the Bank Agreement, the Purchase Right may be exercised only in whole by any one or more of the Bank Purchasers. The Bank Agreement terminates and the Purchase Right becomes null and void if any of the following events occur: (a) the Banking Board fails or refuses, prior to the exercise of the Purchase Right, to approve, without material conditions or limitations, an application by Community State Bank for the establishment of a branch authorized to engage in full commercial banking services at a location Community State Bank has selected in Manhattan, New York, (b) prior to March 3, 1983, the Bank Purchasers, in seeking to exercise the Purchase Right, fail to obtain the requisite banking, regulatory or other necessary approvals for the acquisition of the Bank of Commerce Shares owned by Empire or (c) prior to the exercise of the Purchase Right or March 3, 1983, the Purchaser shall have failed to acquire a majority of the voting power of the Company.

The Bank Agreement also provides that after the Purchaser acquires a majority of the voting power of the Company, it will cause the Company and Empire to become parties to the Bank Agreement. The Purchaser has agreed, and each of the Company and Empire will agree after it becomes a party to the Bank Agreement, pending exercise, expiration or termination of the Purchase Right, that it will not, directly or indirectly, take any action to (a) initiate a change in the composition of the Board of Directors of the Bank of Commerce or its management (except that the Company may continue to have one director or the same proportionate representation on the Board of Directors of the Bank of Commerce as it had as of January 23, 1982), (b) call a meeting of the stockholders of the Bank of Commerce, (c) permit any action to be taken at any meeting of the stockholders of the Bank of Commerce for the purpose of taking corporate action outside the ordinary and usual course of business of the Bank of Commerce, (d) amend the Certificate of Incorporation or By-laws of the Bank of Commerce or (e) split, combine or reclassify the outstanding capital stock of the Bank of Commerce, unless, in each of the above cases, certain events occur. The Bank Agreement provides that subject to the foregoing, pending exercise, expiration or termination of the Purchase Right, the Company shall cause Empire to vote its Bank of Commerce Shares at each annual meeting of stockholders of the

Bank of Commerce prior to the expiration of the Bank Agreement in favor of the election as directors of those persons nominated by the Bank of Commerce's Board of Directors, provided that the Company shall continue to have one director or the same proportionate representation on the Board of Directors of the Bank as it had on January 28, 1982. The Bank Agreement further provides that the Purchase Right may be assigned in whole by the Bank Purchasers with the prior consent of the Purchaser, which consent will not be unreasonably withheld. The Purchaser has agreed that, except in limited circumstances, it will not withhold its consent if the proposed assignee has been approved by the Banking Board.

On March 2, 1982 the Banking Board, upon further consideration of the matter, approved the New York Application.

Virginia Banking Law. On October 20, 1978, CCAH and CCAI were advised by the Bureau of Financial Institutions of Virginia that it would raise no objection to the proposed cash tender offer for the Shares if CCAH and CCAI provided certain undertakings relating to the giving of notice to such Bureau of changes in the businesses of CCAH and CCAI and the availability of their books and records. Nonetheless, in December, 1978 the Virginia Commissioner recommended that the Federal Reserve Board deny the Federal Application as originally filed.

By letters dated December 31, 1980 and January 5, 1981, the Virginia Commissioner advised the Federal Reserve Board of his view that the acquisition of control of the Company by CCAH and CCAI would violate Virginia law and recommended that the Federal Application, as resubmitted, be denied. The Virginia State Corporation Commission (which is charged with the responsibility of interpreting and administering the Virginia statutes) subsequently advised the Federal Reserve Board that it disagreed with the Virginia Commissioner's interpretation of the law and was overruling such interpretation. The State Corporation Commission also advised the Federal Reserve Board that Virginia did not wish to request a formal hearing on the Federal Application. The Virginia Commissioner did, however, participate in the informal meeting conducted by the Federal Reserve Board with respect to the Federal Application and generally objected to the approval thereof (see "Bank Holding Company Act" above).

Tennessee Banking Law. On August 9, 1978, the Commissioner of Banking of Tennessee (the "Tennessee Commissioner") advised CCAH and CCAI that no action would be required on the part of CCAH and CCAI under Tennessee law in connection with the Offer. However, in January 1979 the Tennessee Commissioner recommended that the Federal Reserve Board deny the Federal Application as originally filed. The Tennessee Commissioner did not, however, make a recommendation to the Federal Reserve Board with respect to the approval of the Federal Application, as resubmitted, and did not participate in the informal meeting conducted by the Federal Reserve Board with respect to the Federal Application.

State Takeover Statutes. The Company is incorporated, and, through certain of its subsidiaries, may be deemed to be doing business, in Virginia. The Virginia Take-Over Bid Disclosure Act (the "Virginia Statute") applies to all nonexempt "take-over bids" (as therein defined) to acquire shares of any class of an equity security of a corporation incorporated and doing business in Virginia. On November 9, 1981, the Virginia State Corporation Commission ruled that the Offer is exempt from the Virginia Statute as not comprehended within the purposes thereof.

Publicly available information with respect to the Company indicates that it maintains facilities in various other states which have enacted takeover statutes. On the basis of this information, the Purchaser does not believe that the presence of these facilities in such states confers jurisdiction over the Offer by such states. However, there is no assurance that state authorities responsible for enforcing such acts will not seek jurisdiction over the Offer. The Purchaser reserves the right to challenge the validity or applicability of any state law allegedly applicable to the Offer and nothing in this Offer nor any action taken in connection herewith is intended as a waiver of such right. In

the event that one or more of such state statutes is applicable to the Offer, the Purchaser might be required to file certain information with, or receive approvals from, the relevant state authorities, and the Purchaser might be unable to purchase or pay for Shares tendered pursuant to the Offer, or might be delayed in consummating the Offer. In such case, the Purchaser may not be obligated to accept for payment, purchase or pay for any Shares tendered. See Section 16.

13. Extension of Tender Period; Termination; Amendment. The Purchaser reserves the right, at any time or from time to time, to extend the period of time during which the Offer is open by giving oral or written notice of such extension to the Depositary and by making a public announcement thereof. The Purchaser reserves the right to terminate the Offer and not to purchase or pay for any Shares not theretofore purchased or paid for upon the occurrence of any of the conditions specified in Section 15 hereof by giving oral or written notice of such termination to the Depositary and by making a public announcement thereof. Amendments to the Offer may be effected by public announcement. See Sections 5 and 15 with respect to the right of the Purchaser to waive any condition of the Offer.

Without limiting the manner in which the Purchaser may choose to make public announcement of the termination or any extension or amendment of the Offer, the Purchaser shall have no obligation to publish, advertise or otherwise communicate any such public announcement, other than by making a release to the Dow Jones News Service, the substance of which is carried over the Dow Jones Broad Tape, except in the case of an announcement of an extension of the Offer, in which case the Purchaser shall have no obligation to publish, advertise or otherwise communicate such announcement other than by issuing a notice of such extension by press release or other public announcement, which notice shall include disclosure of the approximate number of Shares deposited to date and shall be issued no later than 9:00 A.M., Eastern time, on the next business day following the previously scheduled expiration date of the Offer.

14. Dividends and Distributions. If on or after March 3, 1982, the Company should split, combine or otherwise change the Shares, then, without prejudice to the Purchaser's rights under Section 15, the Purchaser, in its sole discretion, may make such adjustments in the purchase price and other terms of the Offer, as it deems appropriate to reflect such split, combination or other change.

If, on or after March 3, 1982, the Company should declare any cash or stock dividend (other than the regular quarterly cash dividend of the Company at a rate not in excess of \$.10 per Share), stock split or other distribution on, or issue any rights with respect to, the Shares, payable or distributable to stockholders of record on a date occurring prior to the transfer to the name of the Purchaser or its nominee or transferee on the Company's stock transfer records of the Shares purchased pursuant to the Offer, then, without prejudice to the Purchaser's rights under Section 15, (i) the purchase price per Share payable by the Purchaser pursuant to the Offer shall be reduced by the amount of any such cash dividend or distribution and (ii) the whole of any non-cash dividend or distribution (including additional Shares or rights as aforesaid) shall be received by the tendering stockholder but shall be required to be promptly remitted and transferred by the tendering stockholder to the Depositary for the account of the Purchaser, accompanied by appropriate documentation of transfer, and, pending such remittance or appropriate assurance thereof, the Purchaser shall be entitled to all rights and privileges as owner of any such non-cash dividend, distribution or right and may withhold the entire purchase price or deduct from the purchase price the amount or value thereof, as determined by the Purchaser in its sole discretion.

- 15. Certain Conditions of the Offer. Notwithstanding any other provision of the Offer:
- (a) The Purchaser shall not be required to accept for payment, purchase or pay for tendered Shares, or may terminate or amend the Offer (whether or not any Shares have theretofore been accepted for payment, purchased, or paid for pursuant to the Offer) (i) unless and until CCAH, CCAI, the Purchaser or the Company shall have received all required banking, other regulatory and other necessary approvals in order for CCAH, CCAI and the Purchaser to obtain control of the

- Company, (ii) if the Purchaser is not permitted by applicable law to purchase all Shares properly tendered and not properly withdrawn; or (iii) if the Acquisition Agreement, as amended, is terminated in accordance with its terms.
- (b) The Purchaser shall not be required to accept for payment, purchase or pay for tendered Shares, or may terminate or amend the Offer, if, at any time on or subsequent to March 3, 1982 and prior to the time of payment for any such Shares (whether or not any Shares have theretofore been accepted for payment, purchased or paid for pursuant to the Offer), any of the following shall occur:
 - (i) there shall be threatened, instituted or pending any action or proceeding by or before any domestic or foreign court or governmental agency or other regulatory or administrative agency or commission or by any other person, domestic or foreign, (1) challenging the acquisition by the Purchaser of any Shares or otherwise directly or indirectly relating to the Offer, or (2) seeking to prohibit CCAH's, CCAI's or the Purchaser's ownership or operation of any portion of the Company's business or assets, or to compel the Company, CCAH, CCAI or the Purchaser to dispose of any portion of the Company's business or assets, including the business or assets of the Company's affiliates, as a result of the Offer, or (3) seeking to prohibit the ownership or operation of, or to compel the disposition of, all or a portion of the business of CCAH, CCAI, the Purchaser or any of their respective affiliates as a result of the Offer; or
 - (ii) there shall have been any action taken or there shall have been any statute, rule or regulation enacted, promulgated or deemed applicable to the Offer by any government or governmental agency, domestic or foreign, that might, directly or indirectly, (1) result in a delay of more than 10 days in the ability of the Purchaser to purchase or pay for some or all of the Shares, (2) render the Purchaser unable to purchase or pay for any of the Shares, (3) make such purchase or payment illegal, (4) seek to prohibit CCAH's, CCAI's or the Purchaser's ownership or operation of all or a portion of the business or assets of the Company or any of its affiliates, or to compel the Company, CCAH, CCAI or the Purchaser to dispose of any portion of such business or assets, as a result of the Offer, or (5) seek to prohibit the ownership or operation of, or to compel the disposition of, all or a portion of the business or assets of, CCAH, CCAI or the Purchaser or any of their affiliates as a result of the Offer; or
 - (iii) any change shall have occurred or be threatened in the business, financial condition, prospects, operations or results of operations of the Company which is or may be materially adverse to the Company, or the Purchaser shall have become aware of any presently existing facts which have or may have material adverse significance with respect to the value of the Shares; or
 - (iv) there shall have occurred (1) any general suspension of, or limitation on prices for, or trading in, securities on the ASE or the NYSE, (2) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, any limitation by any national, regional and/or local government or governmental agency in the United States on the extension of credit by lending institutions, which materially adversely affects the Company or any of its subsidiaries or which has the effect of delaying or prohibiting consummation of the Offer, (3) a commencement of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States or (4) a material change in the United States or any other currency exchange rates or a suspension of, or limitation on, the markets therefor which materially adversely affects the Company or any of its subsidiaries or which would materially adversely affects the CCAH, CCAI or the Purchaser of the Offer, or, in the case of any of the foregoing existing at the time of the commencement of the Offer, a material acceleration or worsening thereof; or

- (v) the Company shall have (1) issued, or authorized or proposed the issuance of, shares of capital stock of any class (including Shares) or securities convertible into any such shares or rights, warrants or options to acquire any such shares or other convertible securities, (2) issued, or authorized or proposed the issuance of any other securities in respect of, in lieu of, or in substitution for, the outstanding Shares, (3) declared or paid any dividend or distribution with respect to any shares of its capital stock (other than the regular quarterly cash dividends of the Company at a rate not in excess of \$10 per Share or an annual stock dividend in respect of the Shares and Class A Shares not in excess of 5% of such Shares and Class A Shares issued and outstanding), or (4) authorized, recommended or proposed, or announced its intention to authorize, recommend or propose, any offer, merger, consolidation, acquisition of assets, disposition of assets or Shares or material change in its capitalization, or any comparable event, not in the ordinary course of business, other than the Offer; or
- (vi) a tender or exchange offer for some or all of the Shares shall have been made, or publicly proposed to be made, by any other person or entity, or the Purchaser shall have learned that more than 5% of the outstanding Shares have been acquired by another person or entity other than a person performing an arbitrage function (including a "group" as defined in Section 13(d)(3) of the Exchange Act); or
- (vii) there shall have been any breach or threatened breach of performance by the Company under the Acquisition Agreement prior notice of which shall have been given to the Company;

which, in any such case, and regardless of the circumstances (including any action by the Purchaser or any of its affiliates) giving rise to any such condition, makes it inadvisable to proceed with the acceptance for payment of, purchase of, or payment for, any tendered Shares.

Any determination by the Purchaser concerning any events described in this Section 15 shall be final and binding upon all parties. All conditions set forth in the Offer are for the sole benefit of the Purchaser and may be asserted by the Purchaser regardless of the circumstances (including any action by the Purchaser or any of its affiliates) giving rise to any such condition or may be waived by the Purchaser in whole or in part at any time and from time to time in its sole discretion.

16. Solicitation and Other Fees and Expenses. The Purchaser will not pay any fees or commissions to any broker, dealer or other person (other than the Dealer Manager and the Information Agent as set forth below) for soliciting tenders of Shares pursuant to the Offer.

Kidder, Peabody & Co. Incorporated ("Kidder, Peabody") is acting as Dealer Manager in connection with the Offer. For its services, Kidder, Peabody will receive a fee equal to (i) \$150,000 plus (ii) \$.12 per Share acquired by the Purchaser pursuant to the Offer, but such fee shall in any event be no less than \$200,000 and shall be payable whether or not any Shares are purchased pursuant to the Offer. The Purchaser, CCAI and CCAH have also agreed to reimburse Kidder, Peabody for its reasonable out-of-pocket expenses, including attorneys fees and disbursements, relating to the Offer, up to an aggregate of \$30,000, and for any out-of-pocket expenses in excess of such amount incurred by Kidder, Peabody with the consent of the Purchaser, CCAI or CCAH. The Purchaser, CCAI and CCAH have also agreed to indemnify Kidder, Peabody against certain liabilities and expenses in connection with the Offer, including liabilities under the federal securities laws.

The Purchaser has retained D. F. King & Co., Inc. to act as Information Agent and for advisory and other services in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, telex, telegram and personal interview and may request brokers, dealers and other nominee stockholders to forward the Offer materials to beneficial owners. Customary compensation will be paid for such services in addition to reimbursement for reasonable out-of-pocket expenses.

The Depositary and the Forwarding Agent will receive reasonable and customary compensation from the Purchaser for their services in connection with the Offer, will be reimbursed for their reasonable out-of-pocket expenses, and may be indemnified against certain liabilities and expenses in connection therewith, including liabilities under the federal securities laws.

17. Miscellaneous. The Offer is not being made to, nor will any tenders be accepted from or on behalf of, holders of Shares in any jurisdiction in which the making of the Offer or the acceptance of Shares would not be in compliance with the securities, blue sky or other laws of such jurisdiction. In any jurisdiction where the securities or blue sky laws require the Offer to be made by a licensed broker or dealer, the Offer is being made on behalf of the Purchaser by the Dealer Manager or one or more registered brokers or dealers which are licensed under the laws of such jurisdiction.

No person has been authorized to give any information or make any representation on behalf of the Purchaser not contained in the Offer, and if given or made, such information or representation must not be relied upon as having been authorized. No broker, dealer, commercial bank or trust company has been authorized to act as the agent of the Purchaser, Dealer Manager, the Depositary, the Forwarding Agent or the Information Agent for purposes of the Offer.

In addition to the Schedule 14D-1, the Purchaser, CCAI and CCAH have filed with the Commission a Rule 13e-3 Transaction Statement (the "Schedule 13E-3") pursuant to Rule 13e-3 of the General Rules and Regulations under the Exchange Act, containing certain additional information with respect to the Offer. The Purchaser, CCAI and CCAH expressly disclaim that the Offer constitutes a "Rule 13e-3 transaction" as that term is defined in Rule 13e-3. The Schedule 14D-1 and the Schedule 13E-3 and any amendments thereto (including exhibits thereto) may be examined and copies may be obtained in the manner described in Section 8 (except that they will not be available at the regional offices of the Commission).

FGB HOLDING CORPORATION

March 3, 1982

L EXECUTIVE OFFICERS AND DIRECTORS OF THE PURCHASER

The names and titles of the executive officers and directors of the Purchaser and their business addresses, present principal occupations and material occupations and positions during the last five years are set forth below. Each of such persons is a United States citizen.

Name and Business Address	Title	Present Principal Occupations and Material Occupation and Positions During the Last Five Years		
Clark M. Clifford Clifford & Warnke 815 Connecticut Avenue, N.W. Washington, D.C. 20006	Chairman of the Board and Director	Attorney, Clifford & Warnke, Washington, D.C.		
Robert A. Altman Clifford & Warnke 815 Connecticut Avenue, N.W. Washington, D.C. 20006	President and Director	Attorney, Clifford & Warnke, Washington, D.C.		
Stuart Symington Suite 400 1700 K Street Washington, D.C. 20006	Director	Retired; U.S. Senator until 1977		
Elwood R. Quesada P.O. Box 23551 L'Enfant Plaza Station Washington, D.C. 20024	Director	Honorary Chairman of the Board (1981-present); Chairman of the Board (1965-1981); President (1965- 1979) of L'Enfant Plaza Properties, Inc., Washington, D.C. (real estate develop- ment and management)		
Robert P. Buford	Secretary and Director	Attorney, Hunton & Williams, Richmond, Virginia		

II. EXECUTIVE OFFICERS AND DIRECTORS OF CCAI AND CCAH

The names and titles of the executive officers and directors of CCAI and CCAH and their business addresses, present principal occupations and material occupations and positions during the last five years are set forth below. Unless otherwise indicated, each of such persons is a United States citizen.

Name and	Title		Present Principal Occupations and Material Occupation and Positions During the	
Business Address	CCAI	CCAH	Last Five Years	
Clark M. Clifford	Director	Director	Attorney, Clifford & Warnke, Washington, D.C.	
Robert A. Altman Clifford & Warnke 815 Connecticut Avenue, N.W. Washington, D.C. 20006	Secretary and Director	Secretary and Director	Attorney, Clifford & Warnke, Washington, D.C.	
Stuart Symington Suite 400 1700 K Street Washington, D.C. 20006	Chairman of the Board and Director	Chairman of the Board and Director	Retired; U.S. Senator until 1977	
Elwood R. Quesada	Director	Director	Honorary Chairman of the Board (1981-present); Chairman of the Board (1965-1981); President (1965-1979) of L'Enfant Plaza Properties, Inc., Washington, D.C. (real estate development and management)	
Etrusco International N.V. 6 Pietermaai, Willemstad, Curacao, Netherlands Antilles (Netherlands Antilles corporation)	-	Resident Director	Fiduciary Services, Curacao, Netherlands Antilles	

[•] Etrusco International N.V., although a director of CCAH, is serving only in a representative capacity on behalf of CCAH and its stockholders pursuant to the laws of the Netherlands Antilles.

III. PERSONS WHO MAY BE DEEMED TO BE CONTROLLING PERSONS OF THE PURCHASER, CCAI AND CCAH

Messrs. Adham, Darwaish and Fulaij may be deemed to be controlling persons of the Purchaser, CCAI and CCAH. The address; present principal occupation, material occupations and positions during the last five years and citizenship of each is set forth below.

Name	Address	Present Principal Occupation and Material Occupations and Positions During the Last Five Years	Citizenship
Kamal Adham	.P.O. Box 1150 Jeddah, Saudi Arabia	Engaged in international trading activities through International Commerical and Industrial Establishment and Arabian Electronic Projects Establishment, P.O. Box 4657, Jeddah, Saudi Arabia; Adviser to the government of Saudi Arabia, 1970-1979	Saudi Arabia
Abdullah Darwaish	. Abu Dhabi United Arab Emirates	Chairman of Abu Dhabi Investment Company, Abu Dhabi, and Chairman of the Department of Personal Affairs of Abu Dhabi	United Arab Emirates
Faisal Saud al Fulaij .	. 6th Floor Kuwait Souk Building Darwaza, Abdul Razak Kuwait	Chairman of Kuwait Sanitary Ware Company, P.O. Box 21999, Safat Kuwait, and Kuwait International Finance Co. S.A.K., P.O. Box 23792, Fahad Al-Salem Street, Safat, Kuwait	Kuwait

ANNEX B



THE FIRST BOSTON CORPORATION MEMBER NEW YORK STOCK EXCHANGE INC.

Carle Address Firstcorp, New York 20 EXCHANGE PLACE New YORK, N.Y. 10005

February 25, 1982

Board of Directors Financial General Bankshares, Inc. 1701 Pennsylvania Avenue N.W. Washington, D.C. 20008

Gentlemen:

You have asked us to advise you as to the fairness from a financial point of view to the holders of shares of Common Stock ("Shares") of Financial General Bankshares, Inc. ("Financial General") other than Faisal Saud al-Fulaij, Abdullah Darwaish and Kamal Adham (the "Investors") and Credit and Commerce American Investment, B.V. ("CCAI"), of the proposed offer to purchase any and all Shares of Financial General (the "Offer"). The financial terms of the Offer are set forth in an agreement, dated July 25, 1980 and amended June 1, 1981, and December 31, 1981, among Credit and Commerce American Holdings, N.V., CCAI, FGB Holding Corporation ("FGB"), the Investors, Stuart Symington and Financial General (the "Agreement"). The Agreement provides in part that FGB will offer to purchase any and all of the outstanding Shares of Financial General for a per share price of 158.3333% of Financial General's per Share book value as of the last day of the last calendar quarter prior to the date Shares are first purchased. Assuming that Shares are first purchased prior to March 31, 1982 the purchase price under the terms of the Agreement will be \$33.80. We have assumed that cash funds sufficient to pay for all shares tendered pursuant to the Offer will be provided to FGB prior to the time such payment is required to be made.

In connection with our review, Financial General furnished to us certain business and financial data concerning Financial General, including the Agreement. We have also reviewed certain publicly available information that we considered relevant and have had discussions with certain members of Financial General's management at its headquarters. We have not independently verified any of the foregoing information and we have assumed for purposes of this opinion that all such information is complete and accurate in all material respects.

In arriving at our opinion we have also considered, among the matters we deemed relevant, the historical financial record, operating statistics, current financial position and general prospects of Financial General and the stock market performance of the Shares of Financial General. In addition, we have considered the prices paid in other acquisitions of banks and bankholding companies.

Fascimile copies of the Letter of Transmittal will be accepted. The Letter of Transmittal and certificates for Shares should be sent or delivered by each stockholder or such stockholder's broker, dealer, commercial bank or trust company to the Depositary or the Forwarding Agent as follows:

Depositary:

THE CHASE MANHATTAN BANK, N.A.

By Mail:

Reorganization Department P.O. Box 466 Washington Bridge Station New York, New York 10033

Facsimile Transmission Telephone Number: (201) 592-4212

Telex Number: 710-990-4992

Forwarding Agent:

AMERICAN SECURITY BANK, N.A.

By Hand Only:

730 15th Street, N.W. 3rd Floor Securities Window Washington, D.C.

Any questions or requests for assistance may be directed to the Dealer Manager or the Information Agent or your broker, dealer, commercial bank or trust company.

Information Agent:

D.F. KING & CO., INC.

One North LaSalle Street Chicago, Illinois 60602 (312) 236-5881 (Call Collect) 60 Broad Street New York, New York 10004 (212) 269-5550 (Call Collect) 400 Montgomery Street San Francisco, California 94104 (415) 788-1119 (Call Collect)

By Hand:

Reorganization Department

67 Broad Street

14th Floor

New York, New York

The Dealer Manager for the Offer is:

Kidder, Peabody & Co.

Incorporated

10 Hanover Square New York, New York 10005 (212) 747-5163 (Call Collect)

446

Comptroller of the Culrency Administrator of National Bar

Whethington, D.C. 20219

Karch 12, 1981

Board of Covernors Federal Reserve Mashington, D.C.

Dear Board Members:

prior approval to become back holding companies. Holding company status would be achieved through the equilasticn of up to 100 percent of the regular comes stock of Financial General Bendamara, Inc., Machington, D.C., a registered bank holding company incorporated in the Commonwealth of Virginia. application of Credit and Commerce American Holdings, Antilles, and Credit and Commerce American Investment, Bank of Richmond requesting the views and This is in response to a letter of

meeting was held, at their request, with coursel representing the proposed investors group. That meeting provided useful clarification of the group's post-acquisition plans regarding financial General. Our analysis of this matter has focused principally upon information con in the application, the confidential supplement to the application and fighthered as a result of our direct supervisory authority over seven of Financial General's subsidiary banks. In addition, on December

The current application is an update and resubmission of a stailar application fitted with the Federal Reserve Bave of Riddmend in Outbors, 1978. In a letter dated becaper 26, 1978, in response to a request for comment, this office solvised the Board that additional information considered pertinent to the application was required before an informed recommendation could be made, spinical man could be made. discussed below in light of the information scomfitted with the Federal Reset Bark of Richmond's November 29, 1980, request and other information available to this giffice as a result of its supervisory responsibilities: items listed in our December, 1978 letter, (a copy of which is attached) our prior concerns continue to be relevant. The status of the five ma

Detailed biographical and business experience background information They indicated that, prior to final Board action on thi officer of financial General by the representatives of the investors group would be submitted to the Board for consideration. They also counsel for the investors group acknowledged the importance of stro on the proposed new senior management of Financial General was not At the December 1 submitted in either application. application, to officer of Fin 3

Board or comprehensive operating plan for Financial General and would be willing to discuss with the agencies those plans in relation to be holding company systems future operations. Settificiting indicated that the investors group would be prepared to submit to t accomplishment of these commitments will minimize uncertainty and concern regarding the future direction of Financial General under proposed new ownership.

financing. Before taking final action on this application, the Board on the sources of the funds needed for the acquisition. Additional detail was included in the current application, especially with respect to the actual amount of personal funds that will be The October, 1978, application did not provide complete information contributed toward the acquisition by each investor. We have been informed by course! that none of the investors are borrowing to dillised and any palationship the londer of bodes are how eith response of the America group. The overall filancial strength of the finesting and the polential saming capacity of the finestial feerals. Organization do not suggest that there will be significant problems with the arrangement of a visable funesting package. finance their respective equity contributions. Although a definit land commitment has not yet been obtained for funding the residual bance of the total acquisition cost, we were informed by course. may wish to obtain all pertinent facts regarding the funding arrangements for the loam. Patitoular attention should be given (terms, backgrounds of the lender and broker, if such services are that negotiations were proceeding toward obtaining the necessary 8

Involvement with the management and other affairs of Financial General nor will ECT be involved in the financial arrangements, if any are required, repeating this proposal. This commitment is any are retirient, both now and in the future, since such a relationship with exother financial institution mould be a significant factor in In this connection, we note that in the October, 1978, application a relationship between the investors group and the Bank of Credit and Investors group for Credit and Commerce American Holdings, N.V., and the fact Commerce International (BCCI) was outlined. Members of the proposed Credit and Commerce American Investment, B.V., also hold an interest in BCCI. It has now been represented to us that BCCI will have no appraising this application. This is especially important in light of the overlapping ownership which will exist between Credit and investment, B.V., and BCCI. Moreover, any enhanced direct or indirect affiliation or relationship between BCCI and Financial Commerce American Holdings, N.V., Credit and Commerce American take on even greater significance in light of that ECCI is not subject to regulation and supervision on a consolidated basis by a single bank supervisory authority.

il million at the consummation of the acquisition and have indicated Our December, 1978, letter expressed concern regarding the possible the banks within the Financial General system. Responding to that concern, applicants have provided for an equity capital increase of need for an additional injection of equity capital into several of 3

CCAR and CCAI vers crasted solely for the purpose of this acquisition, taking advantage of a treaty that the United States annuals with the Retained, granting corporations organised there certain as benefits; these benefits incover still further when passed through an organized in the Retained Annual Annuals.

It has come to my attention that certain foreign interests are involved in the ouncrellp and politymaking activities of CGM and CGM and I be-liere that the approval of this tender offer vould have a severe nega-tive ispact on the communities now served by FGS.

merce American Holdings, M.V. (CCAN) and Credit and Commerce American Investment, B.V. (CCAI) to buy out Financial General Bankshares (FGB) I am writing in reference to the tendor offer by Credit and Com-

Dear Superintendent Siebert: Two World Trade Center Mew York, New York 10047 Nev York State Banking

We have learned that the people behind this takeover are a group of investors from vortices that Exercise to they are not distincted by the property of the term of the control of the con

FGB has controlling stock in banks located in four states and the District of Columbia with the major interest is a concentration of banks in the Washington, D.C. metropoliten area.

Nor is this merely a simple bank takeuver, with ramifications limited to the involved principals. While retistively small, financial General Bankhares could be one of the mest valuable bank holding companies in the United States to a foreign investor who desired maximum.

influence on American banking and political institutions.

their commitment to inject additional capital funds as needed. This injections and appearance to the capital plan abmitted by applicantly, and the sufficient to preserve adequate equity capital positions in the metionally-chartered adequates. **\$**

(a) The original application provided no financial information regarding the investors. Since the applicants are new entities formed solarly to facilitate this acquisition, the financial ability of the meebers of the investing group use and remains extremaly important. While of that included become statements, most of which were certified by public accountants, were provided in the confidential certified by public accountants, were provided in the confidential certified by public accountants, were provided in the confidential certified by the current application on all the private citizen and corporate investors; conventional financial data has not been sade available on certain of the investors. Applicants assert that the data is unavailable due to local coston and predice. In response to the appeares concerns, however, the applicants have provided estimates of these investors! personal net worths, which appear

Our additional request concerning information regarding the identities of proposed minority investors was adequately answered by the submission of detailed biographical information on each proposed investor associated with the group. adequate.

(5) Analysis of the October, 1979, application did not indicate whether the forestors wuld reacher returnantial forest other then community of such as an appearant fees or commissions. It has since been represented that the investors will receive nothing other than communistors in return for their equity contributions to the applicants. ્ર**ક્ષ**ા કુકાર જ

Accordingly, assuming that the investors group's proposed new chief executive officer and operating plans for Einweitel General are satisficatory to the Beard of that the Beard is satisfied that the financial strength of those investors investors investors investors investors investors investors investors in the conventional is satisfictory, the concerns we expressed in our December, 1978, letter have been addressed.

fery truly

Senior Deputy. Co

STATE OF NEW YORK THE SENATE ALBANY

March 11, 1981

MANYACO OMBENBTEIN MINERALT LEADER

Muriel Siebert Superintendent Depar tnent

FACSIMILE TRANSMISSION

Equity Trust (Curação) nv

formerly Etrusco International nv

Julianapiein 22 Curação Netheriands Antilles P.O. Box 504 Curação Netheriands Antilles Telephone 599-9-61 Telefax 599-9-61787 Telex 1133 legal na

Date : 29 January 1991

Full fax no. of addressee: 001/202/659/0065

Number of pages : 1

(including this pag

To : Clifford & Warnke

Attention / reference Mr. J. Griffin Lesher

From W.P. Ruoff/ci/1872

Our reference / matter : c.c.a.h. N.V.

Copy to

Dear Griff.

This is to confirm that indeed Mr. Mattingly of the Federal Reserve Board called us Monday afternoon to discuss acces to the C.C.A.H. records. Mr. Mattingly indicated that it is the intention that one of his people would fly down to Curaçao to review the files. I mentioned that Board approval for the disclosure is being obtained. Awaiting such approval is acceptable to Mr. Mattingly be it that he expressed the hope that the approval will be forthcoming soon.

I agreed to give Mr. Mattingly a call for making an appointment for the review as soon as I would have Board authorization.

What has not been addressed so far is that most of the accounting records (other than the financial statements) are in the Netherlands with Kees de Raaff of Equity Trust Co. N.V. Amsterdam. Please advise whether this would be of importance and more specifically whether we should notify Mr. Mattingly.

Just for the record I can confirm that you indicated that the Federal Reserve Board is already aware of the names of the shareholders of C.C.A.H. since U.S. Federal Reserve regulations require an annual reporting on the shareholding of bank holdings anyway. Please correct me if the above is incorrect. I don't know in which stadium the drafting of the Board Consent is right now, but it may be a good idea to include in a whereas-paragraph a reference to above reporting so as to imply that inspection of the share register by the officers of the Federal Reserve Board should not meet objections from the shareholders.

Kind regards, EQUITY TRUST (CURAÇAO) N.V.

Pim Ruoff

F001323

FEDERAL RESERVE BANK OF RICHMOND

POST OFFICE Box 27622

RICHMOND, VIRGINIA 232613 177 10 11 30

February 8, 1989

Board of Governors of the Federal Reserve System Washington, D.C. 20551

Gentlemen:

This is enclosed a copy of a memorandum reflecting the results of an investigation into the current relationships between Credit and Commerce American Holdings, N.V., (CCAH) and Bank of Credit and Commerce International, S.A., Luxembourg (BCCI). This investigation was conducted following a recent inspection of the domestic operating subsidiary, First American Bankshares, Inc., Washington, D.C., and was initiated as a result of the recent adverse publicity connected with BCCI's indictment for money laundering.

The investigation supports conclusions in several areas. First, management of CCAH and First American Bankshares, Inc. are acutely aware of the potential of the adverse publicity and have undertaken internal programs designed to educate staff regarding the proper arms' length relationship with BCCI and have investigated present business relationship to determine if any irregularities exist. While these investigations have not produced written reports, management of CCAH assured the Examiner that matters such as funds transfers, currency reporting, loans, and rates were reviewed and that no irregularities were found. Secondly, commitments made in connection with the original applications have been complied with and the subsidiary companies continue to be in satisfactory condition. Third, management of CCAH and First American Bankshares, Inc., in meetings with Board Staff and in response to the investigation have made assurances that the relationship of CCAH to BCCI is no different in nature than at the time of the original application when BCCI acted in an investment advisory capacity to certain of the principals. BCCI was again represented as exercising no controlling influence on CCAR.

The one area of obvious change, however, is that the extent of common ownership between BCCI and CCAH has increased significantly since 1980. At that time seven investors owning a majority of CCAR also owned 16.9% of BCCI. Today, nine investors owning a majority of CCAR also own 46% of BCCI.

Poard of Governors of the Federal Reserve System

-2-

February 8, 1989

This common ownership is a matter of some concern and CCAH's relationship with BCCI should be monitored closely in the future. However, in view of the representations of management, and in the absence of other disclosures, we see no reason not to approve routine applications by CCAH and its subsidiaries such as the pending application to retain Bank of Escambia, N.A., Pensacola, Florida.

Very truly yours,

Lloyd W. Bostian, Jr.

Vice President

047

Enclosure

TABLE OF CONTENTS

(FIRST AMERICAN BANKSHARES, INC.)

- 1. Testimony
- 2. Summary of Major Issues
- 3. BCCI/CCAH Organizational Charts
 - 3a. Individual Profiles
- 4. Full Chronology of BCCI and First American Bankshares, Inc.
- 5. Chronology of Stock Transactions
- 6. Alleged BCCI Criminal Activity
- 7. Legislative Basis for Hearing
- 8. Early History of First American Bankshares, Inc.
- 9. District Attorney -- New York Release
- 10. Federal Reserve Press Release
- 11. 1981 Federal Reserve Change of Control Order
- 12. 1990 Federal Reserve Letters (Re: Applications)
- 13. Personal Contact Letters
- 14. Quotation Sheets
- 15. Federal Reserve Orders of Investigation of BCCI
- 16. Transcript of Awan Tape
- 17. Chronology of Clifford and Altman Dealing in CCAH Stock
- 18. Condensed Chronology of BCCI

Summary of Major Issues for September 11th and 13th BCCI Hearings

I. Failure of Directors to Exercise Fiduciary Responsibilities

The past decade has been a tumultuous period for our banking system. Bank failures have become an all too common occurrence with seemingly record numbers being recorded each year. One of the most important, yet nearly ignored causes of our financial system woes is the failure of directors to properly exercise their fiduciary responsibilities.

In the case of Clark Clifford and Robert Altman, they clearly had the responsibility to determine if the shareholders of First American were in fact acting as nominees for BCCI. Both appear to failed to live up to that responsibility - BCCI owned First American the entire time Clifford and Altman ran First American.

The hearing will focus attention on the larger question of the role of directors, and their fiduciary responsibilities. The hearing will also focus on the conflict of interest inherent when the outside legal counsel for a bank has control over the operations of the bank, and the conflicts of interest arising when outside legal counsel has a financial relationship (i.e. stock ownership, loans, etc.) with the bank at the same time it is supposed to be providing "independent" legal advice.

II. Failure of Bank Regulatory Mechanisms

Domestic On the heels of the BNL scandal, in which a small Atlanta agency of an Italian government owned bank granted Iraq over \$4 billion in unreported loans, the BCCI scandal is another example of the lax regulatory environment in which foreign banks operate in the United States.

In the BCCI case, the Federal Reserve, the primary regulator of foreign banks, failed to uncover, for over 13 years, that the largest bank in Washington, D.C. was secretly controlled by a foreign bank.

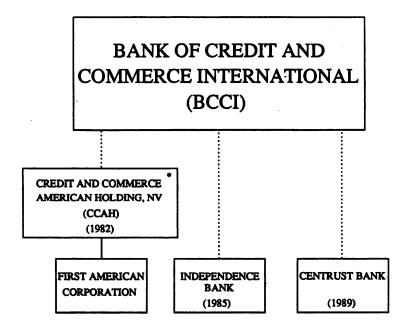
H.R. 6 contains much needed legislative provisions that strengthen domestic supervision of foreign banks. These hearings will help to raise additional questions about the adequacy of bank regulation.

International The BCCI scandal is a prime example of the failure of the international bank regulatory system. In a world of instant communications and increasingly sophisticated banking products, the key to effectual bank supervision is coordination and cooperation between the bank regulatory agencies of many nations.

The Basle Committee on Bank Supervision, Basle Switzerland, was established for that purpose, yet the BCCI scandal illuminates the weaknesses in that present arrangement. BCCI was able to structure its international operations so that no one regulatory agency had responsibility for supervising BCCI's international operations.

These hearings will focus attention on the adequacy of international regulatory standards and the need for improved coordination between bank supervisory bodies.

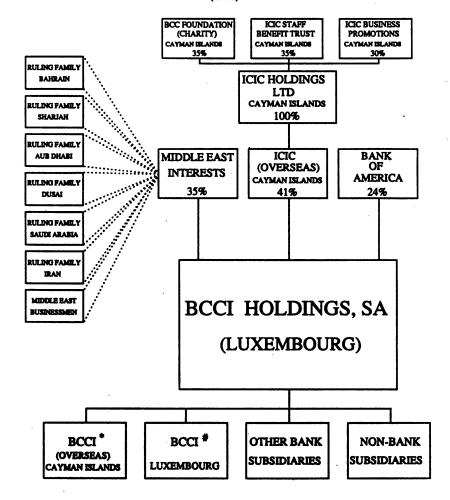
BCCI OWNERSHIP OF U.S. BANKS



^{*} See CCAH Organizational Chart For More Detail.

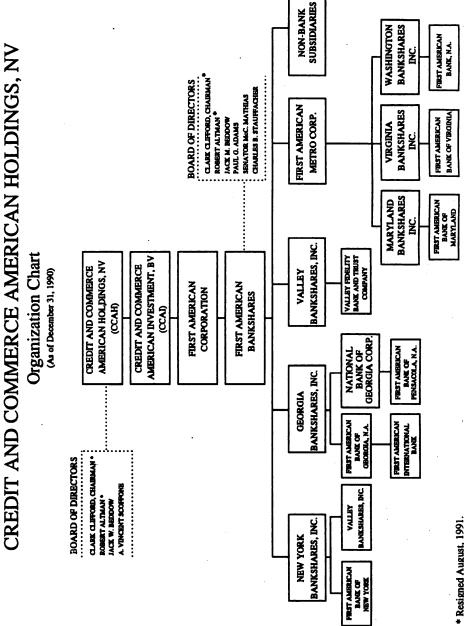
BANK OF CREDIT AND COMMERCE INTERNATIONAL SHAREHOLDERS

(1978)



The Cayman Island Subsidiary Established Agency Offices in Miami, Tampa and Boca Raton, Florida, during the 1980's.

[#] The Luxembourg Subsidiary Established Agency Offices in New York, San Francisco and Los Angeles, during the 1980's.



* Resigned August, 1991.

BCCI SHAREHOLDERS WHO HELD SHARES OF CCAH

		1982 % OF SHARES HELD		1989 % OF SHARES HELD	
SHAREHOLDER		BCCI	ССАН	BCCI	ССАН
1	SHEIKH ADHAM	3.80 %	16.32 %	2.94 %	15.18 %
2	SHEIKH ZAYED	0.47		3.88	11.76
·3	SHEIKH KHALIFA	8.18	9.50	19.65	9.94
4	FAISAL FULAII	2.44	8.58	1.53	9.14
.5	A.R. KHALIL	3.44	8.49	3.08	
6	ABU DHABI INVESTMENT AUTH.	10.00	7.06	10.42	6.62
7	STOCK HOLDING CO.	3.07	7.06		
8	CRESCENT HOLDING CO.	0.91	7.06	3.27	
9	MASHRIQ HOLDING CO.		6.56		9.68
10	A.M. SHORAFA	0.64	6.51	0.55	9.94
11	SHEIKH HUMAID NAOMI		6.06		5.82
12	GULF INVESTMENT R.E. CO.		1.26		
13	REAL ESTATE DEV. CO.		0.75		
14	JAWHARY	0.84	0.51	0.75	
15	M.M. HAMMOUD	2.42		3.55	6.30
16	ICIC	32.82		11.34	
17	SHEIKH KHALID			20.00	9.28
18	PHARAON (GAITH WABEL)	10.00		11.55	
TOT	AL	79.03 %	85.72 %	92.51 %	93.66 %

Significant Individual Players

Clark M. Clifford - Special Counsel to President Truman in the supervision of the unification of the US Armed Forces. Main architect of The National Security Act of 1947. Former Secretary of Defense under President Lyndon Johnson. Represented Bert Lance in the OMB Director confirmation hearing. Represented Arab investors in the takeover battle for Financial General. Roles: Chairman of the Board - CCAH, NV; CCAH, BV; First American Corporation; First American Bankshares; Counsel - BCCI (in its defense of the Tampa money laundering charge); CCAH, NV; CCAH, BV; First American Corporation; First American Bankshares.

Robert Altman - Mr. Clifford's right hand man. Referred to by Mr. Clifford as the son he never had. Joined Mr. Clifford's law firm after graduating from law school. Corporate law specialist who includes as his clients IBM, Phillips Petroleum and Johnson & Johnson. Represented Bert Lance in his takeover lawsuit against Financial General. Later co-represented the Arab investors in their takeover fight for Financial General. Roles: Director - CCAH, NV; CCAH, BV; President - First American Corporation (Jack Beddow is president of First American Bankshares); Counsel - BCCI (counsel in its defense of the Tampa money laundering charge); CCAH, NV; CCAH, BV; First American Corporation; First American Bankshares.

Clifford & Warnke ("C&W). Law firm of Clark Clifford and Robert Altman. Received millions in legal fees since being appointed general counsel of First American Bankshares Board (Chaired by Clifford) in 1982. Received millions as legal counsel to BCCI since late 1970's. Law firm that represented Bert Lance when he sold NBG to Pharaon in 1977. Law firm that represented Bert Lance in confirmation hearings in 1977. C&W was appointed head of the BCCI Legal Defense Fund after the Tampa indictment in 1988. Performed legal work for CCAH, holding company of First American. At various times represented several of the individual "nominee" shareholders of CCAH.

Agha Hasan Abedi ("Abedi") President and founder of the BCCI organization. Director of ICIC. Federal Reserve has accused him of numerous violations of the Bank Holding Company Act. One of masterminds of BCCI criminal activities around the globe including BCCI illegal control of CCAH, National Bank of Georgia, Independence Bank and Centrust Savings Bank.

Swaleh Naqvi ("Naqvi") Principal officer and second in charge of BCCI. Federal Reserve has accused him of numerous violations of the Bank Holding Company Act. One of masterminds of BCCI criminal activities around the globe including BCCI illegal control of CCAH, National Bank of Georgia, Independence Bank and Centrust Savings Bank.

Hasan Mahmood Kasmi. General Manager of ICIC. Purportedly assisted Abedi and Nagvi in much BCCI's criminal activity including

money laundering, violations of the Bank Holding Company Act and other statutes and regulations.

Kamal Adham - Former head of Saudi Arabia intelligence agency. Largest CCAH shareholder. Also shareholder of BCCI. Federal Reserve has accused him of acting as nominee for BCCI purchase of CCAH shares. Told Federal Reserve in 1981 that he "would not in any way" be a cover for BCCI.

HH Sheikh Zayed Bin Sultan Al Nahayan (Sheikh Zayaed) - Ruler of Abu Dhabi. Current owner of BCCI. Friend of Mr. Abedi. Sheikh Zayed could be regarded as the biggest financial victim of BCCI. According to classified information, the Sheikh was unaware of the financial problems that BCCI was under. He trusted Mr. Abedi in his representations of BCCI as a financially strong bank. Reports indicate that the Sheikh might lose billions of his own money to untangle BCCI financial problems which he is responsible for now.

Ghaith Pharaon - Friend and associate of Mr. Abedi. Saudi businessman accused by the Federal Reserve of being the front man for BCCI's purchase of Independence Bank (Encino, Ca.) and National Bank of Georgia (NBG). Owner of InterRedec (Georgia) Holding Company. Bought National Bank of Georgia from Bert Lance. Later Mr. Pharaon sold his shares of NBG to First American. At the same time he had a loan against the NBG shares with BCCI. Ghaith Pharaon, is the son of Dr. Rashad Pharaon, physician and senior adviser to three Saudi kings. As a result, he had connections to the Saudi royal family. Mr. Pharaon is believed to be in serious economic problems. He has been unable to pay interest on \$300 million on loans from international banks. He is believed to have had lost his connections to the Saudi royal family.

Nominees. Persons and companies accused of being used by BCCI to purchase CCAH are called the "nominees." The nominees are Kamal Adham, Faisal Saud Al-Fulaij, A.R. Khalil, Saywed Jawhary, Mashriq Holding Company, Ali Mohammad Shorafa, Bin Rashid Al Naomi. If it is proven that BCCI used these persons as nominees to acquire shares of CCAH, BCCI violated explicit commitments made at BCCI's direction in its 1980 application to the Federal Reserve that BCCI would have no interest in the acquisition of First American, that BCCI was not funding the acquisition of CCAH, that none of the shareholders held their shares as unidentified agent for BCCI. The Federal Reserve has also accused BCCI of funding, through its nominee relationships, the acquisition of National Bank of Georgia, CenTrust Savings Bank and Independence Bank all in violation of the Bank Holding Company Act and other statutes. Nominees are all shareholders of BCCI.

BCC Group

BCCI Holdings (Luxembourg) S.A. ("BCCI Holdings"). BCCI Holdings is a foreign company existing and doing business under the laws of Luxembourg. BCCI Holdings is the holding company for the BCC Group's two primary bank subsidiaries - BCCI Overseas and BCCI SA.

Bank of Credit and Commerce International, S.A. Luxembourg ("BCCI SA"). Operated agency offices in New York, Los Angeles and San Francisco - all closed. While chartered in Luxembourg, BCCI-SA had its main operations and headquarters in London. Abedi and Naqvi were located at its offices in London. Provided loans to nominee shareholders to purchase CCAH/First American shares.

Bank of Credit and Commerce International, (Overseas) Limited George Town, Cayman Islands ("BCCI Overseas"). U.S. offices in Tampa, Miami, and Boca Raton, Florida - all closed. BCCI Overseas was a key player in much of the money laundering activities of BCCI. Provided loans to nominee shareholders to purchase CCAH/First American shares.

International Credit and Investment Company (Overseas) Limited George Town, Cayman Islands ("ICIC"). ICIC is a foreign bank located in Cayman Islands. ICIC acted under the control and management of senior BCCI officials and its ownership, management and business activities were intermingled with BCCI in such a way that the two banks operated as a single entity. Key source of criminal activity within BCCI. Intimately involved in BCCI purchase of CCAH and Independence Bank.

Credit and Commerce American Holdings ("CCAH") Group

Credit and Commerce American Holdings, N.V. Netherlands Antilles ("CCAH"). Foreign-owned holding company set up in 1981 to purchase Financial General Bankshares (now called First American Bankshares). BCCI acquired shares of CCAH by using nominee

First American Bankshares ("First American") Holding Company owned by CCAH. Formerly called Financial General Bankshares. Current subsidiary banks located in Washington, D.C., Virginia, Maryland, New York, Georgia, Florida, and Tennessee. Clark Clifford Chairman from 1982 until August 1991 resignation. Robert Altman, director from 1983 until resignation August 1991.

Financial General Bankshares - predecessor to First American Bankshares. Financial General was bought out by CCAH in 1982.

Independence Bank, Encino, California ("Independence") The Federal Reserve has charged BCCI with secretly acquiring control of Independence Bank. ICIC used Ghaith Pharaon as a nominee shareholder to take control of bank. As an indication of the control over management, the Federal Reserve reveals that BCCI President Abedi hired the Chairman of Independence.

National Bank of Georgia ("NBG") - Currently called First American Bank of Georgia. Bert Lance bought this bank from Financial General Bankshares in 1975. Using BCCI loans, in 1977, Pharaon purchased NBG from Lance. In 1986/1987 Pharaon sold NBG back to BCCI which in turn sold it to CCAH.

CenTrust Savings Bank, Miami, Florida. CenTrust Chairman David Paul is a close associate of Ghaith Pharaon.

Chronology - BCCI

1940's-1950's

Financial General Bankshares (FG), a Washington based holding company, acquires control of banks in Georgia, Maryland, New York, Tennessee, Virginia, and the District of Columbia. As of June 30, 1990, the total assets of First American Bankshares, Inc., Financial General's successor, are \$11.6 billion.

1972-1973

Agha Hasan Abedi, a Pakistani banker, founds Bank of Credit and Commerce International Holdings (Luxembourg), S.A. (BCCI), a Luxembourg holding company. Among the shareholders that Mr. Abedi signs are: Bank of America, the rulers of Abu Dhabi and Dubai, and other prominent Arabs.

1973-present

BCCI's total assets grow from \$200 million in 1973 to \$23.5 billion as of December 31, 1989. BCCI has operations in 69 countries as of December 31, 1989.

Aug. 1, 1974

As required by the 1966 Amendments to the Bank Holding Company Act, the Fed makes a determination that International Bank (IB) of Washington, D.C. directly controls Financial General Bankshares (FG). Financial General contests this determination.

1975

BCCI tries and fails to buy a small New York bank owned by FG.

1977

BCCI suffers a series of losses speculating in financial markets. Losses total \$849 million by 1985 and trigger fraudulent coverup by BCCI.

Ghaith Pharaon, a Saudi businessman, agrees to buy 60% of Bert Lance's shares in National Bank of Georgia (NBG) at \$20 per share (Lance was director of Office of Management and Budget in the Carter administration); a few weeks earlier the stock was trading for \$10 per share. Later Pharaon buys 100% of NBG's outstanding shares.

April, 1977

In an effort to moot Fed proceedings, IB sells approx. 22% of FG voting shares to group of 20 investors headed by J.W. Middendorf II, who becomes President and CEO of FG. Shortly after that dissident shareholders seek to sell shares to foreign investors.

Sept., 1977

Bert Lance resigns from government because of questions concerning the banking practices of the National Bank of Georgia while he was president of the bank.

Oct., 1977

FG law suit alleges that about this time Eugene Metzger agrees with Jackson Stephens to try to acquire control of FG. Metzger, a member of the D.C. law firm of Metzger, Shadyac and Schwarz, served as counsel to FG during most of 1977. Jackson Stephens of Arkansas owned Stephens, Inc., one of the largest investment banking houses outside New York City. He also controls Systematics, a data processing firm for financial institutions. Metzger owns 1.6% of FG stock; Stephens - at least 4.9%.

Bert Lance joins with Metzger and Stephens to form "Lance Group." FG suit alleges Lance promised senior position in new organization.

Oct. 15, 1977

Lance and others meet in London with Agha Hasan Abedi to get financial support from BCCI, according to allegations from FG.

Oct.-Nov., 1977

Abedi retains Bert Lance to advise BCCI on investments in the U.S. Lance recommends that BCCI buy shares of NBG (that he controls), and shares of FG. Lance had purchased NBG from FG in 1975. He owned 12% of the shares of NBG.

Nov. 25, 1977

Fed orders FG to end relationship with IB, including the divestiture of FG shares held by individuals and organizations affiliated with IB (principally General George Olmstead, his foundation and trusts). Must be done by Dec. 31, 1978.

Dec. 31, 1977

Fed estimates that at this point Middendorf still controls about 40% of the voting stock. The Lance

Group has about 20% of the stock in its control.

Dec., 1977-Feb., 1978

BCCI, acting through Abedi, Abdus Sami and other agents, purchased almost 20% of FG. In various official filings with U.S. regulatory authorities, BCCI stated that it purchased the shares for four foreign clients of BCCI. These investors included Sheikh Kamal Adham of Saudi Arabia; Abdullah Darwaish, for the benefit of Sheikh Mohammed Bin Zaid Al Nahyan Abu Dhabi, a minor and son of the ruler of Abu Dhabi; Faisel Saud Al Fulaij, a citizen and resident of Kuwait; and Sheikh Sultan Bin Zaid Al Nahyan, the crown prince of Abu Dhabi. Fulaij borrowed the funds required to purchase his shares from the Kuwait International Finance Company ("KIFCO"), an affiliate of BCCI.

Dec. 31, 1977

Fed estimates that at this point Middendorf still controls about 40% of the voting stock.

Dec., 1977 -Jan., 1978

Records show considerable FG stock sales involving Stephen's firm.

Jan. 13, 1978

B. F. Saul becomes a bank director of FG. Saul had held 6% of FG stock since 1974 and acquires at least 5% more in late 1977. Saul aligns with Middendorf and becomes Chairman of the Board.

Jan. 30, 1978

Abdus Sami sent a telex to Abedi to brief him concerning his purchase of FG. He referred to BCCI's "intention to acquire control" of FG. Sami informed Abedi that he had retained former defense secretary Clark M. Clifford, of Clifford & Warnke, as chief counsel. Mr. Clifford would handle any takeover litigation and the necessary filings with the Board of Governors of the Federal Reserve ("Board") under the Bank Holding Company Act.

Feb. 7, 1978

Lance meets with Saul and Middendorf who tell the Fed that Lance stated he was acting for BCCI. BCCI held 20% of the FG shares and friends held an additional 15%. Lance told Saul and Middendorf that the group he represents seeks control. Lance recommends that Saul and Middendorf travel to

Atlanta to meet Abedi.

Feb. 9, 1978

Middendorf issues press release stating recent purchases of FG stock may have been made by a foreign bank that may be seeking to obtain control of the Bank. FG attorneys meet with the SEC to provide information.

Feb. 10, 1978

In phone conversation with Saul, Lance states that he never mentioned a foreign bank, only that the purchasers were a group of foreign individuals.

Story appears in <u>Post</u> (Jerry Knight) with headline: "Mideast Bank Buys Block of Financial General Stock."

Feb. 13, 1978

Attorneys for FG meet with Federal Reserve to discuss situation.

Feb. 14, 1978

Story in <u>Wall Street Journal</u> reports that BCCI denies that it purchased stock in FG. BCCI replies that they were unable to do so because Bank of America owns 24% of BCCI.

Feb. 17, 1978

FG sues to block takeover attempt.

Feb., 1978

Knight story in the <u>Post</u> quotes Lance's attorney, Robert Altman, at U.S. District court hearing on suit.

Feb. 21, 1978

Robert Mannion, Associate General Counsel of the Fed writes to Altman, representing Lance, informing him that the Fed is investigating the matter and may contact them in the future.

March, 1978

FG filed a lawsuit against BCCI, Abedi, Lance, the aforementioned four Middle Eastern investors, and others (collectively called "the investors") for failure to file forms 13(d) with the SEC regarding their acquisition of FG shares. Section 13(d) requires that any person or group acting for the purpose of acquiring or holding securities of an issuer that directly or indirectly acquires the beneficial ownership of more than 5% of the equity

securities of an issuer must provide a schedule setting forth specified information related to the purchases.

March 17, 1978

SEC filed a separate lawsuit in Federal District Court in Washington, D.C. against BCCI, Abedi, and the four BCCI clients for violation of the Williams Act (failure to file forms 13(d) with the SEC) regarding their acquisition of FG shares. To avoid litigation, each party enters into a consent agreement and the defendants agree to file form 13(d). The SEC requires the investors to make a tender offer for FG shares at \$15 per share, the highest price paid by any of the defendants. This would be subject to Fed approval for the formation of a bank holding company. Investors agreed if the tender offer was not successful that they would offer to sell their interest in FG at \$15 per share.

March 21, 1978

Knight story in <u>Post</u> reports that B.F. Saul may have a conflict of interests because he has many loans from FG.

FG attorney, Martin Thaler, meets with Fed staff, including William Taylor, to push their case against Lance Group efforts.

March 28, 1978

Memo to Fed Board of Governors discusses SEC formal investigation into violations of Federal securities laws. SEC found no evidence to show FG stock purchasers acted in concert, though Abedi, the President of BCCI, serves as financial advisor to the Arabs who bought FG shares. SEC determined Lance serves as a consultant to BCCI.

April, 1978

A U.S. District Court judge finds that BCCI, Abedi, and the four Middle Eastern investors in FG acted as a "group." However, the judge grants only limited injunctive relief, requiring defendants to rescind the prior purchases from persons whom they purchased FG shares on the open market during December, 1977 and January, 1978.

April, 1978 May, 1982

Kidder, Peabody & Co. registers as a foreign agent representative for CCAH, B.V.; CCAH, S.A.; Agha Hasan Abedi, BCCI, S.A.; and ICIC (Overseas) LTD. to act as "financial adviser with respect to investment by such foreign principals and/or their associates in Financial General Bankshares, Inc. (FGB) and has assisted them in connection with a contemplated tender offer for shares of common stock of FGB."

April 7, 1978

Fed (Mannion) writes to Altman requesting detailed information about BCCI and the FG investors concerning possible violations of the Bank Holding Company Act. Fed raises the issue of an off-shore affiliate of ICIC as a vehicle for the acquisition of FG and asks for specific information.

May 9, 1978

Altman provides five page response to Fed letter. Included in the text:

Abedi and BCCI have acted as the commercial banker and financial advisor for investors in connection with the purchase of FG shares.

In November, 1977, BCCI representative met with Stephens, Inc., representatives, including Jackson Stephens, to discuss the potential sale to a BCCI customer of shares in the National Bank of Georgia. At the meeting, Stephens mentioned to a BCCI representatives that, in his view, FG might be a good investment. After that, Stephens, Inc., Abedi, and other BCCI representatives have additional meetings and discussions regarding the prospective sale of NBG shares to a BCCI customer. The discussions also involved the subject of FG as a potential investment for other BCCI customers.

Toward the end of November 1977, Stephens suggested to Abedi that he (Abedi) should meet with Metzger to have Metzger act as attorney and agent for Adham and the other investors, each of whom had advised Abedi they wished to purchase up to 5% of FG's outstanding shares. Metzger and Stephens both acted as agents for the investors. From about Dec. 20, 1977 to January 27, 1978 both bought FG shares for the investors.

Altman understands that neither BCCI nor any of its affiliates provided financing for the purchase of these stocks. BCCI advanced the funds through their accounts at BCCI. BCCI transmitted the funds to the U.S. through BCCI's New York correspondent bank.

Some funds (approx 3.5 million dollars) were borrowed on an unsecured basis from the Kuwait International Finance Company. BCCI owns 49% of this institution's capital stock.

Letters provided to BCCI by investors were for the sole purpose of confirming BCCI's authority to have acted on their behalf in purchasing FG shares and in holding such shares in safe custody.

Letter cites District Court's approval of SEC findings that put in doubt the notion that the investors acted as a group as defined by the Securities Exchange Act of 1934.

July-Aug., 1978

BCCI forms Credit and Commerce American Holdings, N.V., Netherlands Antilles ("CCAH") and its wholly owned subsidiary Credit and Commerce American Investment, B.V., Amsterdam, Netherlands ("CCAI") as vehicles for acquiring shares of FG. In statements filed with the SEC, BCCI, Abedi, and the four BCCI clients stated that BCCI would have no interest in CCAH, but ICIC Overseas would own up to 5% of the shares of CCAH.

Oct. 18, 1978

Sheik Sultan Bin Zaid Al Nahyan sold his shares in FG to Adham.

Oct. 19, 1978

Application by CCAH, CCAI, and Financial General Bankshares Holdings Corporation, Washington, D.C. (FGBHC) to become bank holding companies by acquiring all the voting shares of FG (the 1978 Application). According to the application, Adham, Fulaij and Darwaish would contribute all their shares of FG to CCAI in return for shares of CCAH. CCAI would then make a tender offer for all the FG shares it did not already own. Robert Altman, counsel for CCAH, advised the Board that "neither BCCI nor any other organization related to BCCI contemplates owning any equity interests in CCAH."

Nov. 7, 1978

Richmond Fed Vice President, Lloyd Bostian, Jr. writes Altman for more information, specifically asking about the relationship between CCAH, CCAI and BCCI.

Nov. 24, 1978

Altman replies that ICIC will have an ownership interest of 4.5% in CCAH and that one or two persons associated with BCCI or ICIC may serve as director of FG. There will be no contractual relationship between CCAH or CCAI and BCCI or ICIC relating to the management or investments of FG or similar advisory services.

Nov. 29, 1978

Application formally received in Richmond.

Jan. 1, 1979

The Board's Legal Division described the application of CCAH, and CCAI to become bank holding companies by acquiring shares of FG. The Division noted that FG opposed its acquisition by these organizations. The Division set forth options available for the Board for disposing of the proposal. The Board defers any action.

Jan. 12, 1979

Altman writes the Fed concerning Comptroller's concerns about the source of financing for the proposed purchase of FG stock. Altman responds that no more than an aggregate of 20 million dollars may be borrowed. Such borrowing will be made from institutions having no affiliation with CCAH or CCAI or the investors, either on an unsecured basis or with collateral not consisting of any shares in either of CCAH or CCAI.

Jan. 26, 1979

Because of the opposition of FG to the 1978 Application, the Attorney General for the State of Maryland issued an interpretation of the Maryland law stating that because First American Bank of Maryland ("FAB-MD"), a subsidiary of FG, had not indicated its intent to have an affiliate but had opposed its acquisition, the proposed acquisition was a hostile takeover and would violate the State law.

Feb. 14, 1979

The Board expressed agreement with the Maryland Attorney General's opinion and agreed that it would

be precluded by law from approving the application. It was understood that an order dismissing the application would be prepared for the Board's consideration.

Feb. 16, 1979

The Board dismissed the 1978 Application without consideration of its merits, in view of the Maryland Attorney General's opinion. The Board's order did not address other issues raised by the 1978 Application.

Early March 1979

Fed denies application expressing concerns that section 3(d) of the Bank Holding Company Act prohibits the formation and limits the expansion of existing multi-state bank holding companies by a proposed new bank holding company.

The main reason for the denial, however, is a Maryland state law prohibiting "unfriendly" takeovers. Fed finds approval of the application would be contrary to state law.

March 9, 1979

Altman asks Fed for extended period in which to seek reconsideration so that an arrangement can be reached with the State of Maryland.

March 16, 1979

CCAH and CCAI filed an action in the District Court of Washington against the Maryland Bank Commissioner challenging the constitutionality of the state law.

June 6, 1979

Altman writes to the FG Board of Directors advising them that upon obtaining the necessary approvals from the Fed and other regulators, a cash tender offer will be made for FG stock. Altman seeks the Board's cooperation and asks them to withdraw litigation. The cash tender offer will be for \$22.50 per share, said to represent a premium of approximately 67% over the most recent closing price. Altman issues press release.

June 12, 1979

FG's attorney, Martin Thaler, responds that it is premature to consider any offer. Board may do so after regulatory barriers are cleared. Issue press release.

June 25, 1979

Altman again writes to FG Board telling them that their reasoning is curiously circular. He suggests that the immediate consideration of the generous CCAI offer is the only way to serve the best interests of the stockholders. Argues that their cooperation could overcome the "unfriendly" takeover problem in Maryland.

July 31, 1979

District Court and SEC agree to extension until July 31, 1980 for cash tender offer by investors.

Aug. 8, 1979

Another letter from Altman to the FG Board recommends the acceptance of the tender offer that is now up to \$25 per share. Letter puts FG on notice that investors will pursue a proxy fight at annual meeting if the investors and FG do not reach agreement.

Dec. 21, 1979

Sheikh Adham asks FG to include information regarding tender offer in the proxy statement for 1980 annual meeting. FG refuses to include information.

April 3, 1980

Adham solicited proxies from FG shareholders for the 1980 shareholders' meeting in support of a resolution favoring a proposed tender offer by CCAI and CCAH for FG shares. FG defeats Adham's proposal at FG's shareholders' meeting.

Adham distributes a proxy statement to shareholders seeking their support for the election of three new Directors not recommended by the FG Board. The proposed directors are Honorable Stuart Symington, Elwood Quesada and Donald Notman.

April 18, 1980

Investor attorneys meet with FG Chairman Saul, FG President and CEO Middendorf and Dr. Armand Hammer, FG Vice Chairman of the Board. FG Board meeting held at the request of Dr. Hammer. Investors notified that if the CCAI raises its offer to \$28.50 per share, the FG representatives would accept and support the offer.

April 19, 1980

Investors accept deal.

April 20, 1980

Problems with the technical aspects of the deal cause investors to decide to continue proxy fight.

April 30, 1980

Stockholders annual meeting held. Shareholders elect each nominee of the FG Board of Directors for Director with 57% of the vote.

May 21, 1980

FG Board sends Letter of Understanding to CCAH Chairman Symington setting out the guiding principles to govern the proposed acquisition of FG. The deal requires Mr. Symington to hold at least 60% of the stock of CCAH for no less than five years. CCAH must retain 100% control of CCAI. Clark Clifford must succeed Symington at CCAH if Mr. Symington in unable or unwilling to finish his term. In other instances, a successor shall be appointed by Robert Altman.

FG agrees to cooperate in obtaining regulatory approvals and agrees to add Symington to the FG Board.

June 1980

Bank of America sells its BCCI shares.

July 25, 1980

The investors enter agreement with FG management for sale of FG's shares to CCAH and CCAI and the three BCCI clients. FG's Maryland branch approves intent to affiliate with CCAH and CCAI, thereby removing the basis of the Board's dismissal of the 1978 applications. Under the agreement, CCAI would make a tender offer for FG shared at an increased price per share and FG would cooperate with the offer. FG elects new directors; Symington, Clark Clifford and Elwood Quesada.

SEC extends time for tender offer to Sept. 30, 1980.

Nov. 1980

CCAH again seeks Fed approval to acquire Financial General following a negotiated arrangement between CCAH and Financial General management.

Nov. 5, 1980

Washington law firm of Kutak, Rock and Huie retained by CCAH to prepare and support new application for prior approval for bank holding companies. In response to request for information from Richmond Fed, attorney Baldwin Tuttle informs the Fed that investors who intend to buy FG stock own about 17% of BCCI. (Adham owns 3.87% - Fulaij owns 2.11%)

Nov. 20, 1980

Fed approves the revised application to be in a form that is acceptable for filing purposes.

Nov. 25, 1980

CCAH and CCAI again file an application (the "Application") with the Board to become bank holding companies.

The Application stated that, as in the 1978 Application, the shares of FG held by the BCCI clients would be contributed to CCAI in return for shares of CCAH. A tender offer would be made for the remaining shares.

The Application, as amended, disclosed that the funds needed to finance the acquisition, approximately \$180 million, would come from three sources: (1) the equity contributions to CCAH by Adham, Fulaij, and Darwaish, (2) the sale of shares of CCAH to the three BCCI clients and other investors, and (3) a loan for \$50 million. Of the funds raised, \$12 million would be injected as capital into FG.

The Application stated that the investors in CCAH shares would make the investment with their funds. The Application stated that "no principal of (CCAH or CCAI) will retain any personal indebtedness in connection with this transaction" and that "all of the funds to be used by each of them to purchase their equity interest in CCAH will be provided from their personal funds." Also submitted as part of the Application was Adham's April 1980 proxy statement, which stated that the funds to finance the tender offer would be provided by Adham and the other proposed shareholders in CCAH "from their personal funds and from personal borrowing from one or more financial institutions with which each has had financial relations for several years and which will not be affiliated with BCCI or any of BCCI's affiliates."

The applicants informed the Board that \$50 million would be borrowed from the Banque Arabe et Internationale d'Investissement, Paris, France ("BAII"), a commercial and investment bank. The loan would be secured by all the FG shares acquired in the tender offer. The applicants created a

wholly owned subsidiary of CCAI, FGB Holding Company, Washington, D.C. ("FGBHC") to be the borrower. FGBHC also applied to the Board for prior approval to buy FG.

The Application stated that "BCCI owns no shares of (FG), CCAH or CCAI, either directly or indirectly, nor will it if the application is approved. Neither is a lender, nor will it be, with respect to the acquisition by any of the investors of either (FG), CCAI or CCAH shares." In a written response to questions concerning the relationship between BCCI and CCAH, Altman stated: "With regard to the stockholders of CCAH, all holdings constitute personal investments. None are held as an unidentified agent for another individual or organization."

Nov. 28, 1980

Richmond Fed formally advises Fed Board that they received an application for preliminary review from CCAH and CCAI on Oct. 6, 1980. Additional information was requested and received on Nov. 22 and the new application was formally accepted on November 28, 1980.

Dec. 16, 1980

Officers and shareholders of FG were opposing the acquisition and were expected to request that the Fed Board hold a hearing. Staff pointed to several aspects of the acquisition that were unique, including the following: information about many of the fourteen purchasers was sketchy, thus, a hearing would help secure information necessary to the Board's decision; and some purchasers were alleged to have connections with a reputed member of the organized crime community in Europe. Board members agreed that a hearing would help answer questions on the background of the purchasers and their plans for the operation of the banking organization. The Board authorized the staff to schedule a hearing on the proposed acquisition, as appropriate.

Dec. 29, 1980

Maryland state officials decide that the new application does not violate state law.

Dec. 31, 1980

Virginia Commissioner of Financial Institutions recommends denial of application based on lack of specific information in the application. It is determined, however, that approval of the application would not violate Virginia state law.

March 12, 1981

In a letter commenting on the Application, OCC, the primary regulator of several FG banks, stated that various concerns it had raised concerning the 1978 Application had now been addressed. In particular, OCC cited the representation by the applicants' counsel that BCCI would have no involvement with the management of FG or with the financing of the proposal. According to the OCC, "(t) his commitment is critical, both now and in the future, since such a relationship with another financial institution would be a significant factor in appraising this application. ...(A) ny enhanced direct or indirect affiliation or relationship between BCCI and FG would take on even greater significance in light of the fact that BCCI is not subject to regulation and supervision on a consolidated basis by a single bank supervisory authority."

April 19, 1981

The Board considered applications of CCAH and CCAI to become bank holding companies through acquisition of shares of FGBHC. to become bank holding companies through acquisition of FG. Disputes surrounding the 1978 application were settled and the Maryland Bank Commissioner recommended approval of the court applications. The Virginia Commissioner of Financial Institutions objects to approval of the applications. The Fed Board unanimously approved the applications. The application is consummated April 19, 1982. FG name changed to First American Bankshares, Inc. effective April 12, 1982.

April 23, 1981

The Board holds an informal private hearing attended by representatives of CCAH and CCAI, the relevant State bank commissioners and OCC. Clifford and Altman represented the applicants. Adham, Fulaij, Khalil, and Jawhary were also present and testified on the record at the hearing. Adham, who would be the largest shareholder of CCAH, was introduced at

the hearing as the individual who represented the views and positions of the other shareholders, and Fulaij, Khalil, and Jawhary confirmed this representation. Adham said: "There is, however, no understanding or arrangement regarding any future relationship or proposed transactions between FG and BCCI."

In response to a question about the relationship between CCAH, CCAI and BCCI, Altman stated "there is no connection between those entities (CCAH and CCAI) and BCCI in terms of ownership or other relationship." Clifford stated that for the record: "(t)here is no function of any kind on the part of BCCI . . . I know of no present relationship. I know of no planned future relationship that exists

At the hearing, Adham, Fulaij, Khalil, and Jawhary stated that they did not intend to take an active role in the management of the banks to be acquired.

April 23, 1981

Sheikh Kamal Adham meets with Fed and provides statement that he uses BCCI's financial services but there is no understanding or arrangement regarding any future relationships or proposed transactions between FG and BCCI.

May, 1981

Fed summary of new application shows that 14 Middle Eastern investors intend to form three shell holding companies, CCAH, CCAI and Financial General Bankshares (FGB) to acquire 100% of the common stock of FG. Investors will contribute \$219.6 million; \$169.6 million from personal funds and FGB will borrow \$50 million.

Aug. 14, 1981

Investors name Clark Clifford, Chairman of the Board of Financial General, and Robert Stevens, President and CEO. From 1976 until March 1981, Mr. Stevens was Chairman and CEO of BankOhio in Columbus, Ohio.

Sept. 1981

Hong Kong subsidiary of BCCI obtains state license to open San Francisco agency.

Sept. 21, 1981-Sept. 25, 1981

By the General Counsel of the Board: Letter to Option Advisory Service, Inc., New York, New York, denying its request for reconsideration of the Board's action approving the applications of the CCAH, CCAI and FGBHC to become bank holding companies through the acquisition of FG.

Oct. 19, 1981-Oct. 23, 1981

The Board would not review the actions of its General Counsel denying the requests of Option Advisory Service that the Board reconsider its actions approving the application of CCAH, CCAI and FG.

1981-1990

Lance introduces BCCI founder Agha Hasan Abedi to Jimmy Carter. Abedi showers Carter's charities with \$8 million in gifts and hires Andrew Young as a consultant.

Feb. 1, 1982

The Fed responds to questions about applications posed by Representative Rosenthal of New York for the Subcommittee on Commerce, Consumer and Monetary Affairs.

March 2, 1982

The New York State Banking Board approves CCAH's application to acquire FG under New York law after CCAH agreed to divest FG's New York subsidiary, the Bank of Commerce, once CCAI had obtained control of FG.

FGBHC has a tender offer to purchase, for cash, all the shares of FG at a price of \$33.80 a share. The transaction consummated on April 16, 1982.

March 3, 1982

FGB Holding Corporation announces cash tender offer of \$33.80 net per share. Kidder Peabody handles offer.

April, 1982

BCCI Overseas (Cayman) obtains state license to open Miami agency.

April 10, 1982

Wash. Post (Knight) reports that Prince Mohammed turns age 21 and has Mr. Darwaish, his financial agent, arrested for a scheme to defraud the ruler of \$100 million.

April 14, 1982

Eleven members of the Financial General Bankshares Board resign. Robert Altman, Jack Beddow, Robert Stevens and James Gavin elected to Board. B.F. Saul resigns as Chairman of the Board but stays on as Director. FG Board reduced to ten (Clifford, Stevens, Symington, Altman, Beddow, Gavin, Saul, Quesada, Casey and Bowerstock). Clifford elected Chairman. Stuart Symington elected as Vice-Chairman. Robert Stevens elected as President of the Company. Board designates Clifford and Warnke as General Counsel and changes company name to First American Bankshares.

April 16, 1982

As a result of the tender offer and the contributions of FG shares by Adham, Fulaij, and Darwaish; CCAH, indirectly through CCAI and FGBHC, owned and controlled at least 96% of the shares of FG.

Aug. 1982

After <u>Washington Post</u> reports that Darwaish is under house arrest, Clark Clifford writes to the Fed to assure them that Darwaish's arrest has no bearing on First American because Sheikh Mohammed actually owned the CCAI shares in his name.

Clifford advises Fed Board staff that Darwaish merely held the shares for the benefit of a minor (the Crown Prince of Abu Dhabi), who having reached majority, would handle his investments in the future.

FG changed its name to First American Bankshares (FAB), and FGBHC changed its name to First American Corporation ("FAC").
Clifford became a managing director of CCAH and chairman of FAB. Altman was also a director of FAB and president of its direct parent company, First American Corporation.

Sept. 30, 1982

Governor Wallich, testifies before Subcommittee on Commerce, Consumer and Monetary Affairs of the Committee on Government Operations, U.S. House of Representatives, about acquisition of FG.

1983

FAB acquires two Manhattan branches from Bankers Trust Co. BCCI executives are involved in the negotiations.

Feb., 1983

BCCI S.A. (Luxembourg) obtains state license to open Los Angeles office.

March 29, 1983

Application of the First American Bankshares, Inc., Washington, D.C. ("FAB-DC"), and its parent companies: CCAH, CCAI and First American Corporation, Washington, D.C. ("FAC-DC"), to acquire remaining outstanding common stock of Valley Fidelity Bank and Trust Company, Knoxville, Tennessee.

Aug. 17, 1983

The Board unanimously <u>approved</u> FAB's applications to buy additional shares of Valley Fidelity Bank and Trust Company, Knoxville, Tennessee. In addition, the Board <u>denied</u> a request by Union Planter Corporation, Knoxville, Tennessee, that a hearing be held on the applications.

Oct., 1983

BCCI Overseas (Cayman) obtains state license to open Boca Raton, Florida agency.

April 1984

BCCI S.A. (Luxembourg) obtains state license to open New York agency.

June 1984

BCCI Overseas (Cayman) obtains state license to open Tampa, Florida agency.

Sept. 10, 1984

BCCI board considers loan application of Sheikh Kamal Adham for \$75 million besides the \$40 million previously loaned.

Oct. 4, 1984

Chairman Clifford states to First American Board that his goal is for First American to become one of the 20 largest banks in the country within ten years.

1985

BCCI, acting through Ghaith R. Pharaon, a Saudi financier, secretly acquires control of Independence Bank of Encino, California.

Jan. 1, 1985

BCCI, acting through Pharaon, illegally acquired ownership or control of 25% or more of NBG Financial

Corporation and its subsidiary, NBG, without the Board's prior approval.

Dec. 11, 1985

Chairman Clifford tells Board that the investors have been kept fully informed of all aspects of First American and have promised an additional \$25 million in capital in 1986.

1986

U.S. Customs Service launches undercover investigation named C-Chase. Customs agent posing as money launderer channels millions of dollars in cocaine money through BCCI.

June 1986

In a working paper concerning BCCI, the CIA reports that in late 1981, BCCI made an unsuccessful attempt to acquire or gain control of Financial General Bankshares. According to the report BCCI achieved its goal half a year later. Report distributed to the State Department, Treasury Department, Commerce Department and other agencies.

Sept. 25, 1986

Chairman Clifford reviewed for the First American Board the substantial growth of First American since the takeover in 1982, noting that CCAH raised the additional capital of \$150 million to maintain their growth.

Dec. 2, 1986

Notification to engage <u>de novo</u> in underwriting credit life and credit accident and health insurance directly related to extensions of credit of subsidiary banks through Potomac Insurance Company, Phoenix, Arizona. Commenced July 1, 1987.

Dec. 10, 1986

Chairman Clifford advises the First American Board of their interest in acquiring the National Bank of Georgia.

1986-1988

Clifford and Altman get a BCCI loan to buy CCAH shares, most of which they sell 19 months later for three times what they paid. Clifford and Altman get a \$14 million gross profit.

Feb. 26, 1987

Chairman Clifford noted to the First American Board that funds for the acquisition of the National Bank of Georgia will come from additional borrowing but primarily they will come from new equity contributed by the owners.

April 22, 1987

Application to buy NBG Financial Corporation, Atlanta, Georgia filed. The application is approved by FRB-Richmond under delegated authority June 26, 1987.

May 1987

Federal Reserve examination identifies potential money laundering at the Miami office of BCCI Overseas and files criminal referral with Treasury and Justice Departments.

Sept. 17, 1987

Chairman Clifford noted that the First American owners provided \$250 million of additional capital over the past year including \$31 million used to buy the minority stock of the Virginia Bank. First American used the balance, it is noted, to buy the National Bank of Georgia.

1988

The College of Supervisors, an organization of international bank regulators, is formed. Representatives of the Bank of England, Institut Monetaire Luxembourgeois (IML), Banco d' Espana and the Swiss Federal Banking Commission are founding members. The Hong Kong Banking Commission and the Cayman Islands Inspectorate join in 1989. United Arab Emirates Central Bank Joins in 1990. Banque d'France joins in 1991.

From its inception the College discussed on a number of occasions the loans extended by BCCI to certain BCCI shareholders against collateral in the form of shares in CCAH.

Feb. 1988

Manuel Noriega is indicted on federal drug charges. Two convicted traffickers testify at Senate hearings that they dealt with Noriega and BCCI in Panama.

March 29, 1988

Notification to engage <u>de novo</u> in various activities through First American Mortgage Corporation, Washington, D.C. Commenced June 30, 1988.

Aug. 3, 1988

Application to retain ownership of Bank of Escambia, N.A., Pensacola, Florida submitted by First

American. The application is approved by Board Feb. 16, 1989.

Sept. 30, 1988

Senate Subcommittee on Terrorism, Narcotics, and International Operations hears testimony from BCCI's Panamanian manager and Noriega's personal banker that Noriega channeled millions of dollars through his BCCI account.

Oct., 1988

BCCI is indicted in Tampa, Florida for money laundering violations. The indictment charges BCCI and some of its employees.Clifford and Altman organized the legal defense.

Clifford meets with Sen. John Kerry, whose subcommittee is investigating possible BCCI money laundering, and assures him of the bank's respectability. Altman allegedly advises a former BCCI executive to flee the country to avoid a congressional subpoena. Altman's lawyer denies he gave this advice.

Criminal referral is filed identifying potential money laundering at BCCI's New York agency. State Banking Department and New York Federal Reserve Bank send letter to U.S. Attorney in New York indicating criminal referral has been filed.

Oct. 11, 1988

Memo from Mr. Don Kline to Jim Keller, Federal Reserve Board. Memo states: "representative Rosenthal in a hearing he held in 1982 also probed (relationship between BCCI and CCAH). Board Staff memorandum stated that while there are common shareholders of BCCI and CCAH... staff has no knowledge of loans from, or other involvement in the affairs of, BCCI on the part of Applicants' principals."

Oct. 11, 1988

Mr. William Von Raab, US Customs Commissioner announces the indictment of BCCI at the end of operation C-Chase.

Nov., 1988

Federal Reserve forwards letter to the U.S. Attorney in Miami identifying potential money laundering activities at BCCI's Boca Raton agency.

Nov. 17, 1988

Relating to the Tampa indictments, the BCCI Board approved the following resolution ". . . that First American Bank, N.A. is hereby designated the depository for funds of this business and is authorized and directed to pay all cheques and any other order for payment of money, including instruments drawn on interest-earning accounts, in the name of this business when signed by both the following individuals - Mr. John F. Kovin and Mr. J. Griffin Lesher of Clifford & Warnke."

Dec. 22, 1988

BCCI Board considers loan application of Faisal Al Fulaij for \$85 million besides the \$82 million previously loaned. Form shows that Mr. Fulaij's has had a relationship with BCCI since 1975.

Dec. 27, 1988

IRS Special Agent David Burris calls William Ryback, Federal Reserve Board bank supervisory official regarding BCCI-First American relationship.

Dec. 29, 1988

Mr. Milo Jeylan of the <u>St. Petersburg Times</u> called Lloyd Bostian, Federal Reserve Board Richmond, in search of information concerning ownership of First American Bankshares. Mr. Jeylan tells Mr. Bostian that according to an affidavit filed by a undercover FBI agent, BCCI representative said that BCCI could not buy U.S. banks directly, but BCCI did control the National Bank of Georgia and other banks through individuals. Mr. Clark Clifford was represented as one of the individuals working for BCCI.

1989

The Federal Reserve, checking claims in testimony of BCCI's Tampa drug case that BCCI owns First American, asks Clifford and Altman again if BCCI has any financial involvement with anyone who ever owned First American shares. The two fail to disclose their loans from BCCI. Their attorneys say disclosure wasn't required.

Jan. 1989

The Fed reviews relationship between FAB and BCCI with a summary to the Board of Governors (copies sent to Don Kline and Kathleen Conley) and assistance in subsequent review of same by special agents of the Internal Revenue Service.

Feb. 1989

Memorandum of understanding issued by State of Florida covering local BCCI agencies.

Memorandum of understanding issued by State of New York against local BCCI agency.

Feb. 1, 1989

According to an <u>L.A. Times</u> article of 9/4/91, Special Agent David Burris and his supervisor Maurice Dettmer come to Washington to meet with Mr. Ryback. The IRS agents provide Mr. Ryback with a briefing of the evidence obtained concerning the BCCI-Fist American link. According to the IRS agents, they offered to provide witnesses who would describe how BCCI owned First American. Mr. Ryback does not take any action. Allegedly, he says that he needs documentation to take further action.

According to Mr. Ryback, Mr. Burris never mentioned any witnesses.

Feb. 8, 1989

The Federal Reserve Bank of Richmond completes its investigation into the current relationships between CCAH and BCCI and reports to Board that no irregularities were found. The Fed finds that commitments made in connection with the original applications have been complied with and management continues to represent that BCCI exercises no controlling influence on CCAH. Common ownership has increased, however, so that nine investors owning a majority of CCAH also own 46 percent of BCCI.

Feb. 15, 1989

CCAH and FAC-DC, and other bank holding company subsidiaries of Credit and Commerce -- submits an application to retain voting shares of Bank of Escambia, N.A., Pensacola, Florida.

Feb. 16, 1989

The Board of Governors of the Federal Reserve System approves acquisition by CCAH of Bank of Escambia, N.A., Pensacola Florida.

Feb. 23, 1989

Richmond Fed staff visits with Fed to discuss special examination of First American, including a review of the relationship with BCCI. Minutes note that Fed found First American complying with the representations made when it was originally

acquired.

March 6, 1989

The Federal Reserve Board meets to discuss Bank of Credit and Commerce International ("BCCI") indictments. At the outset of the discussion, all members agreed that supervisory action should be taken against BCCI. Considering the seriousness of the allegations against BCCI, the Board members expressed a preference for the stronger enforcement actions. Board members authorized the staff to present a consent cease and desist order to BCCI.

March 30, 1989 (Paris)

Mr. Clark Clifford and Mr. Robert Altman, lawyers appointed to oversee and coordinate the defense strategies in respect to the indictment cases in Tampa, Florida were invited to apprise the BCCI Board of the overall situation of the cases.

April 1989

A federal grand jury in Tampa returns a superseding indictment against BCCI, alleging that laundering drug money was part of BCCI's corporate strategy.

April 11, 1989

Lawyers bills for BCCI's USA cases is estimated at about \$4 million.

April 14, 1989

BCCI illegally acquired ownership or control of more than 5% of CenTrust Savings Bank without prior Board approval.

May 1989

In a working paper concerning BCCI, the CIA says that BCCI established a Washington, D.C., presence in late 1987 with the purchase of First American Banking Corporation. Copies sent to State, Commerce, Treasury and other agencies.

May 9, 1989 (London)

BCCI board minutes: "Mr. Robert Altman of Clifford & Warnke and Mr. Baldwin Tuttle of Millbank Tweed, the lawyers engaged in USA for regulatory affairs, were invited to join the meeting so that they may present before the BCCI Board the regulatory requirements that have been prescribed by Florida Banking Authorities as well as the Federal Banking Authorities."

"After lengthy discussion, a resolution was adopted giving authority to the attorneys to take whatever actions with the regulators they feel would be in BCCI's best interests."

June 12, 1989

The Board of Governors authorized a consent cease and desist order against BCCI Holdings (Luxembourg) S.A., Luxembourg; BCCI (Overseas) Limited, George Town, Grand Cayman; and six domestic agencies located in New York, Los Angeles, San Francisco, Tampa, Boca Raton, and Miami that prohibits further violations of the Bank Secrecy Act and requires BCCI to develop and implement an internal compliance program for monitoring compliance with the Bank Secrecy Act.

July 14, 1989

Tampa U.S. Attorney subpoenas documents from the Fed commanding the production of documents relating to BCCI Holdings (Luxembourg) S.A. and various foreign and United States affiliates of BCCI. Tampa U.S. Attorney requests authorization to interview Reserve Bank personnel about the contents of the documents.

Aug. 18, 1989 (London)

Mr. Robert Altman and Mr. Baldwin Tuttle invited to appear before the BCCI Board to present an update on the Tampa case and U.S. regulatory matters including the Fed consent order.

Aug. 21, 1989

New York District Attorney representative tells Federal Reserve investigator that an informant has reported that BCCI owns or controls First American through nominees. Investigator writes: "allegation that BCCI owns First American is serious, and is an allegation that we have heard from other law enforcement agencies."

Sept., 1989

BCCI Overseas (Cayman) closes its Tampa and Boca Raton agencies.

Sept. 28, 1989

Robert Stevens retires as President and CEO of First American. Jack Beddow assumes these responsibilities.

Nov. 1989

College of Supervisors discusses with BCCI management the extent to which their plans with regard to the security on the CCAH loans had been College of Supervisors discusses discussed with the American authorities.

Nov. 27, 1989

BCCI Board minutes: "Mr. Robert Altman and Mr. Baldwin Tuttle invited to join the meeting to apprise the BCCI Board of the latest position relating to the Tampa case." (London)

Dec. 1989

Letter from Federal Board staff to BCCI's U.S. general manager citing inadequate compliance with Cease and Desist Order.

1990

Articles appear in <u>Regardie's</u> and the <u>Wall Street</u> <u>Journal</u> noting the large number of shareholders BCCI and First American have in common.

BCCI and an affiliate plead guilty to federal charges that they had laundered money and forfeit Jan., 1990 \$14 million.

Feb., 1990

Federal District Court in Tampa accepts guilty plea from BCCI and places institution on five year probation and asks BCCI to forfeit \$14 million.

Feb. 7, 1990

Investigators for the Federal Reserve travel to Tampa, Fl. for meetings with the U.S. Attorney's Office. Investigators meet with representative of the U.S. Attorney Office. Representative of the U.S. Attorney Office states that while rumors of ownership of CCAH by BCCI abound, after investigation by their office no evidence to substantiate rumors has been uncovered.

Representative of U.S. Attorney suggests meeting with Special Agents from the IRS who investigated this subject. Fed investigators meet with three agents of the IRS (including Mr. Burris) who state that they had investigated the matter, but concluded that no credible evidence existed to tie BCCI and CCAH. IRS' agents state that they had prepared a report for grand jury and that there was one informant that they would attempt to arrange for the investigator to meet. No mention of meeting with Ryback is made.

Fed investigator is later told by U.S. Attorney representative that the report does not contain any relevant information. Fed investigator continues to try to get report. Fed investigator has not received report as of 9/9/81.

Fed investigator tries repeatedly to talk to informant but is told by informant's wife that informant is out of the country.

April, 1990

Abu Dhabi and its ruler, Sheik Zayed al-Nahyan, purchase the majority stake in BCCI.

May, 1990

Five officers of BCCI are convicted and sentenced to prison after a trial in Tampa. British authorities convict two officers of BCCI. The U.S. government seeks to extradite another BCCI officer from London.

The royal family and government of Abu Dhabi invest in BCCI and increase their stock ownership from 30 percent to 70 percent. The total capital of BCCI is now approximately \$1.5 billion, much of which is expected to be wiped out by loan losses.

May 1, 1990

Letter from A. Hafeez to William L. Rutledge, Vice President, Federal Reserve Bank of New York. Mr. Hafeez said that the government of Abu Dhabi purchased the 20% shares held by the five companies relating to Sheikh Mahfouz Group of Saudi Arabia.

June, 1990

BCCI is notified that plans to maintain the New York agency need to be cleared by State Banking Department before implementation and no assets are to be transferred to the New York agency from other BCCI offices.

Sept. 27, 1990

Chairman Clifford reports to First American Board that he and Altman will be visiting the investors in October to deliver a full report on the Company's situation and to arrange for the possible injection of additional capital.

Oct., 1990

BCCI requests permission from State of New York to maintain agency.

Abedi and Naqvi, Abedi's chief lieutenant at BCCI, are discharged from the bank.

Price Waterhouse gives the Bank of England a report exposing millions of dollars worth of bad loans and improper accounting procedures.

Nov. 6, 1990

Chairman Clifford reports to First American Board on October meeting with stockholders in London stating that they requested an increase in capital of \$125 million as well as an immediate "bridge loan" of \$30 million to be repaid from the capital infusion.

Dec., 1990

San Francisco BCCI office closed.

Dec., 1990

College of Supervisors were informed of the details of a financial package prepared by the shareholders to remedy the then identified potential losses, including arrangements to deal with the problems surrounding the CCAH loans. The Co-Chairmen of the College (Bank of England and IML) discussed with BCCI at this time the possibility that the US authorities could decide that the CCAH transactions had been a breach of US law, and the financial implications of this for BCCI.

Dec., 1990

Robert Morgenthau, Manhattan District Attorney informs the Fed that an audit of BCCI showed \$854 million in loans to First American shareholders using the bank's stock as collateral.

Dec. 13, 1990

First American Board votes to set up Special Oversight Committee (present Board except Mr. Clifford and Mr. Altman) to deal with the regulators.

Letter from Zafar Iqbal, CEO, BCCI to Middleton Martin of Patton, Boggs & Blow. The letter confirms that BCCI has decided to terminate its banking business in the United States. Main reason given for the departure was the inability of BCCI to sustain a sound and profitable operation since the negative publicity in the Tampa case.

Jan., 1991

Miami BCCI office closed.

Order of Investigation issued by the Federal Reserve Board regarding BCCI's control of First American.

Jan. 3, 1991

The Fed proposed supervisory actions/orders of investigation. Order states that in the past few years, there had been a number of allegations that BCCI did, in fact, control First American Bankshares. Since mid-1989, the New York City District Attorney had been investigating, among other things, whether BCCI and CCAH had violated New York law by making false statements to New York banking authorities in connection with First American Bankshares and its New York bank subsidiary.

The Federal Reserve Board's staff and the Federal Reserve Bank ("FRB") of New York also had been investigating the control questions, and had concluded that there was sufficient evidence that BCCI controlled CCAH in violation of the Bank Holding Company Act to warrant further investigation of the matter. It also was suggested that further investigation should be devoted to whether BCCI, CCAH, its officers, shareholders, or representatives had filed false and misleading statements with the Board in connection with the 1981 application or a response to inquiries by Board staff earlier this year.

The members agreed a further investigation was warranted and authorized issuance of orders of investigation against BCCI (Overseas) Limited; CCAH; CCAI; and FAB, Inc.

Jan. 4, 1991

Order of Investigation approved from the Board of Governors of the Federal Reserve system against BCCI.

Jan. 30, 1991

Based on the results of the investigation and ongoing examinations, the Fed staff had prepared and presented to the management of the two organizations cease and desist orders requiring that immediate steps be taken to protect the interests of CCAH, to improve the condition of its subsidiary banks, and to ensure that BCCI Holdings began the process of correcting its violations of law and

terminating its United States operations. The Board delegated to the General Counsel, Virgil Mattingly, and the Staff Director of the Division of Banking Supervision and Regulation, William Taylor, the authority to issue cease and desist orders against BCCI Holdings, BCCI (Overseas) Limited, and a separate cease and desist order against CCAH, upon their execution by the boards of directors of those companies. Chairman Greenspan abstained from this action.

Feb. 3, 1991

The Washington Post reports that BCCI and First American have had an extensive, long-term relationship, contrary to what regulators understood it would be. The article cites evidence that BCCI executives participated in hiring decisions, acquisitions and meetings at First American.

Feb. 25, 1991

The Fed staff reviewed recent developments concerning FAB-DC and BCCI Holdings (Luxembourg), S.A. It was reported that as a result of the cease and desist order recently authorized by the Board, BCCI had agreed to divest its interest in FAB. The staff was looking into allegations that BCCI might have an ownership connection with a west coast bank.

March, 1991

Consent Order entered between BCCI and Board of governors requiring divestiture of BCCI's interest in CCAH and submission of a written plan for orderly cessation of all banking operations in the U.S.; the order also required each agency, until closed, to pledge eligible assets exceeding all third party liabilities.

March 4, 1991

In a formal order, the Fed accuses BCCI of illegally acquiring control of First American's holding company, and BCCI agrees to give up its stake.

March 11, 1991

The Fed staff reported briefly on the ongoing investigation of BCCI Holdings (Luxembourg), S.A., and related organizations that had been authorized by the Board on January 3, 1991.

April 17, 1991

The Board approved a recent request by the New York State prosecutor for disclosure of confidential supervisory information concerning BCCI and CCAH.

The Board also approved a request by the prosecutor that certain Board officials testify before the Grand Jury on applications filed by CCAH under the Bank Holding Company Act and on the Board's supervision of BCCI's agencies in the United States.

April 18, 1991

Federal Banking regulators tighten requirements on relationships with the bank's corporate parent and affiliates, lending practices, the handling of troubled loans and other operations.

May 1991

Federal Reserve and BCCI agree to a consent Cease and Desist order with respect to Independence Bank of Encino, California after evidence derived during the investigation revealed that BCCI controlled the bank's shares.

May 3, 1991

Letter from Middleton A. Martin to Senator John Kerry. Mr. Martin tells Mr. Kerry that: 1. the government of Abu Dhabi agreed to infuse additional capital of \$1.2 million, and as a result, acquired a majority ownership interest; and 2. BCCI's auditors reported significant additional losses due to certain possible fraudulent loan transactions in October 1990.

May 4, 1991

The Washington Post reports that Clifford and Altman earned \$9.8 million on First American stock in a deal financed by BCCI.

May 6, 1991

The Board authorizes the issuance of a joint order of the Board and the Superintendent of Banks of the State of California about BCCI's divestiture of shares of Independence Bank, Encino, California.

May 23, 1991

Federal Reserve Board officials say in congressional testimony that they were deliberately misled for a decade about the ownership of First American.

June, 1991

Price Waterhouse gives the Bank of England more negative reports on BCCI alleging widespread fraud in the bank's operations.

June 17, 1991

The Fed staff reviewed developments regarding the plans by BCCI for providing additional capital to FAB-DC for the divestiture of that company.

July 5, 1991

Regulators in the United States, Britain, Luxembourg, the Cayman Islands and other nations seize BCCI. State authorities close BCCI offices in Los Angeles and New York.

Federal Reserve initiates enforcement against individuals associated with BCCI/Independence Bank transactions. At the request of the U.S. Attorney for the District of Columbia, substantial civil money penalty assessments are deferred temporarily pending the completion of a criminal inquiry.

Many of BCCI's depositors around the world suffer losses. First American Bankshares is not affected.

July 1991

Evidence emerges in Europe that BCCI controls First American through loans to eight front men. Altman disputes the evidence, then, when the Federal Reserve Board later privately produces proof, both Clifford and he claim they were duped.

July 8, 1991

A court in Luxembourg discloses BCCI lost more than its entire net worth in 1990.

The Fed begins weekly report on BCCI.

July 10, 1991

Proposed enforcement actions against BCCI and several other companies and individuals. The Fed staff had prepared for the Board's consideration a notice of permanent prohibition and civil money penalty assessment actions against BCCI Holdings (Luxembourg), S.A.; BCCI (Overseas) Limited; and Messrs. Pharaon, Abedi, Naqvi, and Shoaib. The staff also suggested initiation of a prejudgment attachment action against Mr. Pharaon in United States District Court to prevent the dissipation of his assets. The staff reviewed recent developments concerning the investigation, and noted that the United States Attorney for the District of Columbia had some concerns about whether certain of the proposed enforcement actions would preclude his

proceeding with criminal actions against BCCI and the individuals. The United States Attorney had asked the Board not to proceed with the actions. The Board agreed to <u>defer</u> the action.

July 12, 1991

The Fed staff reviewed developments in connection with the ongoing investigation, reported on discussions with the United States Attorney, and responded to the Board members' questions. At the conclusion of the review, taking into account the United States Attorney's request, the Board authorized issuance of the notice in initiating prohibition actions against Messrs. Abedi, Naqvi, Shoaib, and Pharaon. The Board also delegated to the General Counsel and the Staff Director of the Division of Banking Supervision and Regulation the authority to issue the civil money penalty assessment actions if the letter from the United States Attorney was not received.

Mr. Taylor reported on the condition of FAB-DC, and the negative effects on the organization of the recent seizure of and other developments concerning BCCI Holdings (Luxembourg). He also noted problems associated with senior management of the organization. All members of the Board agreed that the replacement of First American's current management would be in the organizations best interest. The members also discussed the possibility of initiating removal proceeding against certain individuals.

July 17, 1991

Wall Street Journal reports that a few senior
executives at BCCI received \$50 million in hush
money.

July 21, 1991 ·

London Sunday Times reports that Abu Nidal's terrorist group used accounts at BCCI in England. Time magazine reports that BCCI maintained a "black network" of employees who engaged in smuggling and money laundering and collaborated with the CIA.

July 22, 1991

British officials reveal that BCCI used First American Bankshares stock as collateral for loans used to cover up fraud to BCCI and that BCCI probably was never profitable.

July 23, 1991

Robin Leigh-Pemberton, governor of the Bank of England, places blame for the fraud at BCCI on the bank's former executives, and asks BCCI owner Sheik Zayed to protect depositors.

July 29, 1991

BCCI's top two officers are indicted in New York on fraud charges. The Fed charges that BCCI violated banking laws and assesses a \$200 million fine.

Aug. 2, 1991

Letter from Charles McC. Mathias to William Taylor, Director of the Division of Banking Supervision and Regulation, Board of Governors. Mr. Mathias says that: "During the past week, there has been confusion with respect to your position on the question of Messrs. Clifford and Altman remaining as officers and directors of First American."

Aug. 5, 1991

The Federal Reserve Board expressed concern that the plan that had been submitted by the First American Board did not effectively remove Messrs. Clifford and Altman from the management of First American. Also, sentiment was expressed in favor of a plan under which all First American's current directors would resign. It was understood that the Board's views would be conveyed to First American.

August 13, 1991

Clifford and Altman resign as chairman and president, respectively, of First American Corporation. Nicholas Katzenbach, U.S. attorney general in the Johnson administration, is named chairman of First American Bankshares.

Sept. 9, 1991

Plain clothes policemen seize executives of BCCI at the bank's main office in Abu Dhabi.

Chronology of Clifford and Altman Dealing in CCAH Stock

July 22, 1986 BCCI Board of Directors authorizes a \$10 million line of credit for Clark Clifford.

July 22, 1986 BCCI Board of Directors authorizes a \$5 million line of credit for Robert Altman. The authorization papers state that BCCI has had a relationship with Altman for "over ten years."

July 25, 1986 Using the proceeds of a BCCI loan, Clifford purchase 4,495 shares of CCAH stock for \$2,216 per share. The Note and Pledge Agreement signed by Clifford states:

Note and Pledge Agreement for U.S. \$ 9,960,920 dated July 25, 1986. "("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited by Clark Clifford of the same date for the stock of Credit and Commerce American Holdings (CCAH)."

July 25, 1986 Using the proceeds of a BCCI loan, Altman purchase 2,247 shares of CCAH stock for \$2,216 per share. The Note and Pledge Agreement signed by Altman states:

"Note and Pledge Agreement for U.S. \$4,979,352 dated July 25, 1986. "("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited by Robert A. Altman of the same date for the stock of Credit and Commerce Holdings (CCAH)."

May 8, 1987 BCCI Board of Directors approves a \$330,025 excess over limit loan to Altman.

May 8, 1987 BCCI Board of Directors approves a \$662,418 excess over limit loan to Clifford.

May 18, 1987 During CCAH/First American takeover of National Bank of Georgia, lawyers representing CCAH write the Federal Reserve stating:

"In July 1986, Applicants (CCAH) raised \$150 million in equity capital through a rights offering to the existing shareholders of CCAH. Less than 5% of this equity capital infusion represented borrowings by shareholders secured by pledge of shares ..."

As noted on July 25, 1986, Clifford and Altman borrowed from BCCI \$14.9 million to purchase the shares offered during the CCAH rights offering. These borrowings were secured by a pledge of the CCAH shares to BCCI. The Clifford and Altman capital infusion of \$14.9 million thus represents 9.9% of the total \$150 million rights offering, well over "less than 5%" as represented in the letter.

June 23, 1987 Altman pays BCCI \$336,106 in interest on his BCCI loans.

July 24, 1987 Clifford pays BCCI \$672,362 in interest on his BCCI loans.

August 14, 1987 Altman buys an additional 475 shares of CCAH for roughly \$2,430 per share. The Note and Pledge Agreement signed by Altman states:

Note and Pledge Agreement for U.S. \$1,154,250 dated August 14, 1987. "("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited by Robert A. Altman of the same date for the stock of Credit and Commerce Holdings (CCAH)."

August 14, 1987 Clifford buys an additional 951 shares of CCAH for roughly \$2,430 per share. The Note and Pledge Agreement signed by Altman states:

Note and Pledge Agreement for U.S. \$2,310,930 dated August 14, 1987. "("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited by Robert A. Altman of the same date for the stock of Credit and Commerce Holdings (CCAH)."

February 8, 1988 Clifford (3,200 shares) and Altman (1,600 shares) ask BCCI to sell a portion of their CCAH shares.

March 21, 1988 BCCI writes Clifford and Altman and informs them that they have found a buyer for 4,800 shares at \$6,800 a share. The letter states that the outstanding BCCI loans of Clifford and Altman will be paid off in full from the proceeds of the stock sale. BCCI also demands a \$2,250,000 commission for selling the shares for Clifford and Altman.

March 31, 1988 Using BCCI loans, M.A. Hammoud purchases 4,800 shares of CCAH stock from Clifford (3,200 shares) and Altman (1,600 shares) at \$6,800 per share.

March 31, 1988 A BCCI memo indicates that the gross gain before payment to BCCI of interest and commissions from the sale of a portion of Clifford and Altman CCAH shares is as follows:

Clifford - \$11,333,143 Altman - \$5,664,310

After the sale, Clifford still owns 1,295 shares of CCAH and Altman has 647 shares.

1989 A Price Waterhouse audit report questions the price Clifford & Altman received for their CCAH shares. The report concludes:

"... we do not consider the \$6,800 price indicative of the market value of the shares."

December 13, 1989 The Federal Reserve writes Altman at Clifford & Warnke and asks him to provide information regarding BCCI loans to CCAH shareholders. The letter states:

"... it would be helpful if you would provide information on any loans extended to the original or subsequent investors, either directly or indirectly, by BCCI or any of its affiliated organizations. This information should include all loans regardless of purpose, whether any of these loans are secured, and if so, in what manner, and the date any loans were originally granted."

January 31, 1990 In response to the December 13, 1989, Federal Reserve letter, Naqvi of BCCI writes Altman and states:

I cannot provide you with confidential information about our customer's financial arrangements with BCCI without their express prior authorization. On a preliminary basis, I am able to confirm the accuracy of the representations made to the Federal Reserve in the Board application that the acquisition of Financial General Bankshares was not financed by in any respect by BCCI."

February 5, 1990 Altman responds to the 12-13-89 Federal Reserve letter by stating:

"... we do not have access here to information regarding any financial arrangements that might exist between a shareholder of CCAH and other financial institutions, including BCCI."

August 1, 1990 Clifford and Altman send an internal memo to First American Bank, N.A.'s internal auditor attempting to explain large dollar transfers between their accounts and BCCI in 1988. In the memo they state,

"We determined to acquire (in 1986) a small amount of CCAH shares which were thus available. In this regard, we explored financing of the purchase with possible lenders, including BCCI. Satisfactory loans with BCCI (Overseas) Ltd. were negotiated by each of us and the purchase of the CCAh shares at the offering price was affected."

March 22, 1991 A Federal Reserve internal memorandum indicates that Clifford and Altman may have violated terms of a 1987 purchase of National Bank of Georgia by using borrowed funds in excess of the amount that they promised regulators.

Price of CCAH Shares Sold by Clifford and Altman

The following quote was part of a 1989 Price Waterhouse (PW) audit report performed at the request of the Board of Directors of BCCI. In this report PW was attempting to place a value on the CCAH shares. BCCI held the CCAH shares as collateral for loans to the "nominee" shareholders of CCAH.

"Two shareholders, Clifford & Altman sold their CCAH shares in 1988 to another existing CCAH shareholder at a sales price of \$6,800 a share. BCCI officials have not yet provided PW with the names of the buyers or the sources of their funds to purchase the shares. Together they owned less than 7.5% of total CCAH shares. Nothing specific prompted the sale of the shares. Clifford & Altman continue as directors of the company. Given the related party relationship of this transaction, we do not consider the \$6,800 price indicative of the market value of the shares."

DATE 22 JULY 1986

FROM BCCI (OVERSEAS) LTD GRAND CAYMAN

CENTRAL CREDIT COMMITTEE

SUBJECT CREDIT LINE PAVOURING M/S CLIFFORD AND ALTMAN

The following credit line is being submitted to the Central Credit Committee for their approval:

Borrower :

M/s Clark M. Clifford and Robert A. Altman

(Credit reports enclosed in Annexures A and B)

Nature and

Amount of facility:

Short-term clean loan of US\$15,000,000.-

Interest/

Commission fees :

Interest to be charged at 2% above 3 months LIBOR at quarterly rests.

Date of Disbursement :

On or prior to 25 July 1986.

Repayment/Expiry :

The loan will be repaid together with interest 50 31 January 1987.

Documentation :

Standard loan documents being obtained from

the borrowers.

In view of the standing and good reputation of the borrowers, the Central Credit Committee is requested to approve the above facility and recommend the same to the Board of Directors for appro. 1.

Initiated by :

MEMBER

Approved by the Central Credit Committee:

MEMBER

MBER

1733

Clark Clifford

July 25, 1986 Loan from BCCI to Purchase CCAH Shares

BCCI Loan Amount: \$9,960,920

Loan Date: July 25, 1986

CCAH Shares Purchase: 4,495

CCAH Shares Purchase Date: July 25, 1986

Shares Pledged to BCCI: Yes

CABLE CLINEY
TELEX 248886 CLEY

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Clifferd & Warnke Attorneys and Counsellors at Law 815 Connecticut Avenue Washington, D. C. 20006

DIRECT LINE (202) 424-4236

ROBERT A. ALTMAN

August 14, 1987

Bank of Credit and Commerce International (Overseas) Ltd. Fort Street, P.O. Box 1359 George Town, Grand Cayman

RE: Note and Pledge Agreement for US \$1,154,250.00 dated August 14, 1987. ("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited ("BCCI") by Robert A. Altman (the "undersigned") of same date for the stock of Credit and Commerce American Holdings, N.V. ("CCAH").

Gentlemen:

With regard to the Note and the Pledge Agreement (jointly referred to herein as "Loan Documents"), and notwithstanding any provision of said Loan Documents to the contrary, BCCI and the undersigned hereby confirm and agree as follows:

- Certain clients of BCCI have given BCCI a firm commitment to purchase any and all of the undersigned's CCAH shares at such time as the undersigned wishes to sell said shares:
- BCCI shall arrange for the sale of said CCAH shares to such clients, or to other interested buyers in such manner, amount, and at such prices as BCCI and the undersigned shall mutually determine. BCCI and the undersigned shall consult as to the timing of such sales, the sales price per share, and the amount of shares to be sold. This shall serve further to confirm that BCCI is authorized to sell the CCAH shares as stated herein.
- 3) If for any reason there is a delay in arranging the sale of said CCAH shares and the Note becomes due, BCCI shall assist in refinancing said loan and interest accrued thereon on the same basis as the

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT Bank of Credit and Commerce International (Overseas) Ltd. August 14, 1987 Page 2

Note provides, or shall roll over the Note for such periods as may be mutually agreed between BCCI and the undersigned.

- As a result of the arrangements set forth in paragraph 1, BCCI has a ready market for the CCAH shares held as collateral by BCCI to secure repayment of the Note. Accordingly, and, notwithstanding any provision of the Note or Pledge Agreement (or any other document relating to the loan by the undersigned to BCCI) to the contrary, it is understood and agreed that the undersigned shall not be obligated personally to repay to BCCI the loan principal or any interest accrued thereon. BCCI shall be limited solely to the undersigned's interest in the CCAH shares and any proceeds thereof to repay the loan and interest thereon as set forth in the Note and related documents. Proceeds from the sale of CCAH shares in excess of the amount sufficient to pay the principal and interest due on the Note shall be paid to the undersigned.
- 5) In the event BCCI assigns the Note to any other party, such assignment would be subject to and governed by the undertakings and confirmations set forth herein.

If the foregoing correctly sets forth your understanding of the transaction, please indicate in the space provided below.

Sincerely

Robert A. Altman

Understood and Agreed

Bank of Credit and Commerce International (Overseas) Ltd.

1708

SHARE PLEDGE AGREEMENT

SHARE PLEDGE AGREEMENT made as of July 25, 1986, between Robert A. Altman (the "Borrower") and Bank of Credit and Commerce International (Overseas) Ltd. (the "Lender").

The Lender has loaned to the Borrower the sum of \$4,979,352.00 evidenced by a Note dated the date hereof (the "Note").

In order to induce the Lender to accept the Note, the Borrower has agreed to pledge the stock referred to herein to the Lender as security for the repayment of the Note.

IT IS, THEREFORE, AGREED:

- 1. In consideration of the loan made by the Lender to the Borrower as referred to above, the Borrower herewith delivers to the Lender 2,247 shares (the "Pledged Shares") of the Common Stock of Credit and Commerce American Holdings, N.V., a Netherlands Antilles corporation endersed in blank, and the Lender hereby acknowledges receipt of the Pledged Shares.
- 2. The Lender shall hold the Pledged Shares as Security for the repayment of the principal of, and interest on, the Note and shall not at any time dispose of the Pledged Shares or encumber the same except as provided.
- 3. At all times while the Lender is the holder of the Pledged Shares, the Lender shall collect all dividends, whether in cash, property or additional securities of CCAH, and other distributions in respect of the Pledged Shares (collectively, the "Distributions"). Upon payment of any Distribution to the Lender, such Distributions will become additional collateral securing payment of the Note and will become subject to all of the provisions of this Agreement.
- 4. While the Lender is the holder of the Pledged Shares, the Borrower shall have the right to vote the same so long as the Borrower is not in default in the performance of any of the terms of this Agreement or the Note, and for that purpose the Lender shall execute any and all proxies and consents in favor of the Borrower that may be required.

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BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT - 2 -

4. This Agreement shall be binding upon and shall be enforceable by the Borrower, the Lender, their respective successors and assigns and the heirs of the Borrower. The Lender may assign all or any portion of its rights and obligations hereunder without the consent of the Borrower and upon notification of any such assignment to the Borrower, such assignment shall be effective and binding upon the Borrower as of the date of such assignment.

5. All notices hereunder shall be in writing and shall be either personally delivered, transmitted by internationally recognized courier service or transmitted by telex to the parties hereto at their respective addresses below.

To the Borrower:

Robert A. Altman, Esq. 815 Connecticut Avenue, NW Washington, D. C. 20006 Telex: 248556 CLEY

To the Lender:

Bank of Credit and Commerce International (Overseas) Ltd. Guiness Mahon Building Fort Street P. O. Box 1359 George Town Grand Cayman

Except as otherwise specified herein, all notices and other communications shall be deemed to have been duly given on (i) the date of receipt if delivered personally, (ii) the date three days after delivery to the courier if sent by internationally recognized courier service, or (iii) the date of transmission with confirmed answerback if transmitted by telex, whichever shall first occur. Either party may change its address by notice to the other.

- 6. This Note shall be governed by and interpreted in accordance with the laws of the State of New York (other than the conflicts of law rules of the State of New York).
- 7. If any one or more of the provisions contained in this Note or any document executed in connection herewith shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality and enforceablity of the remaining provisions contained herein shall not in any way be affected or impaired.

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CABLE CLINEY
TELEX 248886 CLEY

TELEPHONE (205)

33

Clifford & Warnke Attorneys and Counsellors at Law 815 Connecticut Armus Washington, D.C. 20006

CLARK M. CLIFFORD

DIRECT LINE (202) 828-4269

February 8, 1988

Mr. Swaleh Naqvi
Bank of Credit and Commerce
International
100 Leadenhall Street
London, England
EC3A 3AD

Dear Mr. Naqvi:

I know that you, from time to time, serve as advisor to some of the shareholders of CCAH and keep in touch with the market in that stock. Mr. Altman and I have discussed at some length the possibility of the sale of some portion of our CCAH stock. In this regard we would be most appreciative if you would ascertain if there are buyers for the stock and in what amount. We believe that market conditions at this time indicate to us that it would be a good time to dispose of some portion of our holdings.

With best personal wishes, I am

Cordially yours, 3

Clark M. Clifford

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

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31/83/88 12:22

TO MESSES CLARK M. CLIFFORD AND ROBERT A. ALTMAN

C. S. D. 4FLR-LH.

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FAX TRANSMISSION

CLIFFORD & WARNE

WASHINGTON DC 20006

31 MARCH

FAX NO (202)-659- 0065

NO OF PAGES

HF+ NO 3124/02

You are advised that the interest payable to BCCI (Overseas) Ltd, Crand Cayman by Mr. C.M. Clifford as at 31 March 1988 amounts to US\$610,281.66 (US Dollars Six Hundred Ten Thousand No Hundred Eightyone and sixtysix cents) and US\$129,187.41 (US Dollars One Hundred Eventymine Thousand One Hundred Eightyseven and fortyone cents only) on the two loans. These interest charges are in addition to the Interest amount of US\$672,362.10 (US Dollars Six Hundred Seventytwo Thousand Three Hundred Sixtytwo and ten cents) which was paid by you and credited to your account.

The interest payable by Mr. R.A. Altman amounts to USS305,072.95 (US Dollars Three Hundred Five Thousand and Seventytwo and Minetyfive cents) and USS64,525.78 (US Dollars Sixtyfour Thousand Five Hundred Twentyfive and Seventyeight cents) on the two loans. These interest charges are in addition to the interest amount of USS336,106.26 (US Dollars Three Hundred Thirtysix Thousand One Hundred and Six and Twentysix cents) which was earlier paid by you and credited to your account.

It is understood that Mr. C.M. Clifford and Mr. K.A. Altman shall pay to SCCI (Overscas) Ltd. Grand Cayman USSI.500,000.-- (US Dollars Onc Million Five Hundred Thousand) and USST50,000.-- (US Dollars Seven Hundred Fifty Thousand) respectively, being the commission for arranging the sale of shares of CCAH.

Please remit, value today, the aforementioned amounts together with the principal amounts to Security Pacific Internation Pank, New York, for the credit of Account 07012001 of BCCI (Overseas) Ltd, Grand Cayman, and for the undersigned's attention.

with regards,

Laren M.A. Tmes

– Bank of Credit and Commerce International

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ANY DISCREPANCIES SHOULD BE NOTIFIED TO US WITHIN 7 DAYS OF

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SHARE TRANSFER DEED

- 1. Clark M Clifford hereinafter to be called 'the transeror'.
- 2. Mohammad M Hammoud, hereinafter to be called 'the transferee'.
- 3. Credit and Commerce American Holdings, N.V., a Company with limited liability under the Laws of The Netherlands Antilles, of Willenstad, Curacao, Netherlands Antilles, hereinafter to be called 'the Company'.

Have agreed and hereby declare:

The transferor hereby transfers to the transferee free and clear title to 3,200 registered Shares in the Company, certificate number 72, of a nominal value of US Dollars 1.00 each, and the transferee hereby accepts to the siad Shares.

The consideration for the tansfer of the Shares as agreed by and between the transferer and the transferee has been received by the transferor.

The transferor warrants that no rights of pledge, usufruct or any other charge have been granted to third parties in respect of the Shares hereby transfered, and that no shares certificates have been issued thereto.

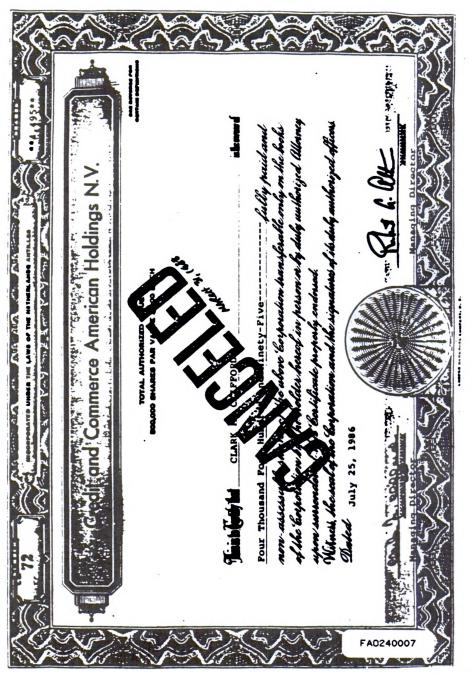
Signed this 31st day of March, 1988, in London, United Kingdom.

(Transferor)

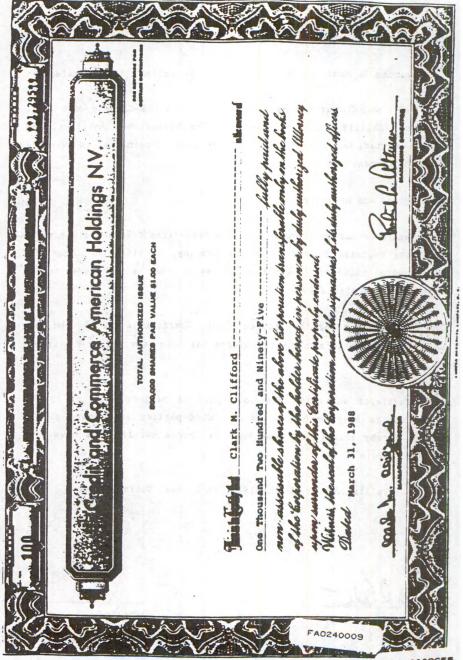
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DATEDY March 51, 1988

CCA0009652



CCA0009653



CCA0009655

SHARE TRANSFER DEED

- 1. Robert A. Altman hereinafter to be called 'the transeror'.
- 2. Mohammad M Hammoud, hereinafter to be called 'the transferee'.
- 3. Credit and Commerce American Holdings, N.V., a Company with limited liability under the Laws of The Netherlands Antilles, of Willenstad, Curacao, Netherlands Antilles, hereinafter to be called 'the Company'.

Have agreed and hereby declare:

The transferor hereby transfers to the transferee free and clear title to 1,600 registered Shares in the Company, certificate number 73. of a nominal value of US Dollars 1.00 each, and the transferee hereby accepts to the siad Shares.

The consideration for the tansfer of the Shares as agreed by and between the transferer and the transferee has been received by the transferor.

The transferor warrants that no rights of pledge, usufruct or any other charge have been granted to third parties in respect of the Shares hereby transfered, and that no shares certificates have been issued thereto.

Signed this 31st day of March, 1988, in London, United Kingdom.

ROBERT A. ALTMAN

(Transferor)

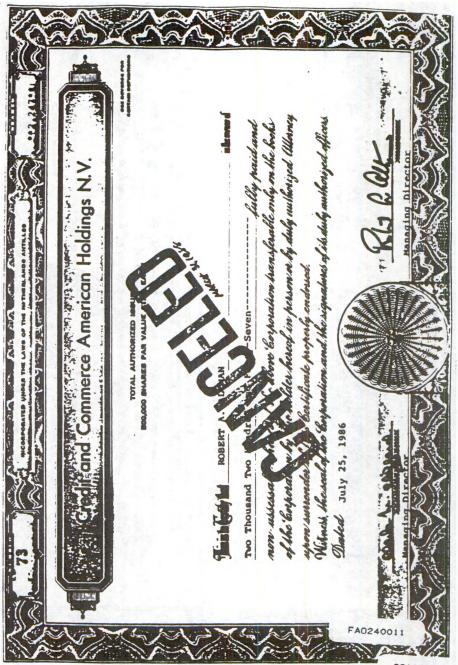
HAMMOUD (Transferee)

Credit and Commerce American Holdings N.

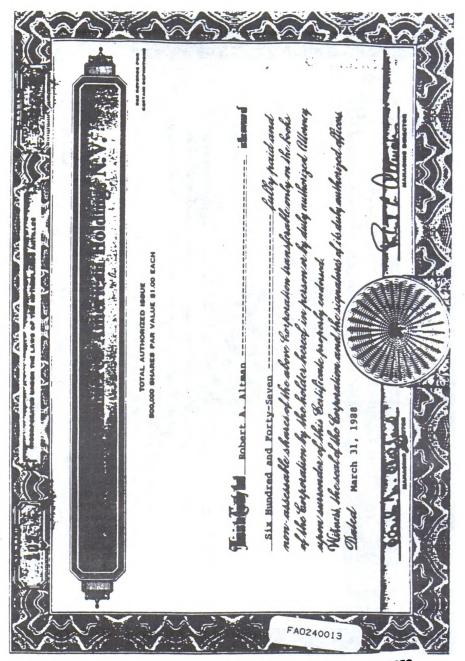
FA0240010

DATED: March 31, 1988

CCA0009656



CCA0009657



CCA0009659

31 March 1988



MR. ROBERT A. ALTMAN

τ. Interest Calculation on Loans

1. Account No. 11008755

Loan balance Less: principal	US\$ (US\$	5,959,810.18 4,979,352.00)
Interest + charges	USS	980,458.18
Refund of interest paid	USS	336,106.26
Total of interest • charges on the loan	ÚS\$	1,316,564.44

2. Account No. 11009596

Loan balance Less: principal		1,261,738.87 1,154,250.00)
Total of interest + charges on the losn	US\$	107,488.87

Total of interest and charges on both loans

US\$ 1,424,053.31



Ell. Evaluating the Capital Gain

For the purpose of calculating capital gains tax, second loan is treated by the IRS as a gain; the first loan is considered as the basis. Furthermore, the profit of US\$1.5 million is also treated as a gain.

1	Profit payable Interest + charges			1,500,000.00
1	Principal of the 2nd loan			1,424,053.31 1,154,250.00
X	CELL PERSONS TO THE SOUTHWEIT	•	USS	4,078,303.31

This gain is taxable at 28%. Under the agreement, the tax liability is to be reimbursed to MAA. This gain is therefore treated as net gain, and the gross gain calculated as follows:-

Net gain (NG) = Gross gain (GG) - 28% of Gross gain

NG = GG (1 - 28%) NG CC .

0.72

Cross gain - USS4,078,303.31 0.72 Tex on Gross gain @ 285

US\$5,664,310.15 3\$1,586,006.84

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111.	Amount to be remitted to RAA	
	Principal of the 1st loan	US\$ 4,979,352.00
	Gross gain calculated above	US\$ 5,664,310.15
	Total amount payable to MAA	US\$ 10,643,662.15
ιv.	Utilisation of Funds by RAA	
	Amount receivable by RAA	US\$10,643,662.15
	Less: balance of 11008755	(US\$ 5,959,810.18)
		US\$ 4,683,851.97
	Less: balance of 11009596	(US\$ 1,261,738.87)
		1158 2 122 112 10
	Less: tax € 28% on US\$5.66M	US\$ 3,422,113.10 (US\$ 1,586,006.84)
	<u> </u>	1555 11,565,665.647
	Amount to be retained by	
	RAA (US\$1.5m + refund of interest of US\$336,106.26)	US\$ 1,836,106.26
	2	
v.	Sale of Shares	
	Book value of the shares as at 31.12.87	US\$2,523.67 per share
	-	seed, ye year one c
	Value at 2.69 times the book	US\$6,800 per share
		por oner
	Approximate number of shares to be sold to pay US\$10,643,662.15	1,565 or 1,600
٧l.	Remittance and utilisation o the Revised Amount	<u>r</u>
	Amount remitted, being proceeds of the sale of 1,600 shares @ US\$6,800per share	US\$ 10,880,000.00
	Less: amount required for repayment of the two loans and tax as per calculation is section Ill	n (US\$ 10,643,662.15)
16	Surplus funds with RAA to	US\$ 236,337.85

43

VII.	Calculation of	Commission
------	----------------	------------

Loan a/c no. 11008755

Balance as per ledger

Less: balance calculated as per loan agreement

Commission

US\$ 5,959,810.18

(US\$ 5,284,424.94)

US\$ 675,385.24

Loan a/c no. 11009596

Balance as per ledger

Less: balance calculated as per loan agreement

Commission

Total commission calculated

(US\$ 1,218,775.78)

US\$ 1,261,738.87

US\$ 42,963.09

718,348

1695

31 March 1988



MR. CLARK M. CLIFFORD

22

I. Interest Calculation on Loans

1. Account No. 11008744

Loan balance Less: principal		11,922,293.92 9,960,920.00
Interest + charges Refund of interest paid	US\$ US\$	1,961,373.92 672,362.10
Total of interest + charges on the loan	US\$	2,633,736.02

2. Account No. 11009585

Loan balance Less: principal		2,526,126.98 2,310,930.00)
Total of interest + charges on the loan	US\$	215,196.98
Total of interest and charges		

II. Evaluating the Capital Gain

on both loans

Evaluating the Capital Gain

For the purpose of calculating capital gains tax; the second loan is treated by the IRS as a gain; the first considered as the basis. Furthermore, the profit of US\$3.0 million is also treated as gain.

Profit payable Interest + charges Principal of the 2nd loan

3,000,000 00 2,848,933.00 US\$ US\$ 2,310,930.08

US\$ 2,848,933.00

Gain payable to the borrower

US\$ 8,159,863.00

This gain is taxable at 28%. Under the agreement, the tax liability is to be reimbursed to CMC. This gain is therefore treated as net gain, and the gross gain is calculated as follows:-

Net gain (NG) = Gross gain (GG) - 28% of Gross gain

Cross gain = US\$8,159,863.00 = US\$11,333,143.06

Tax on Gross gain € 28%

US\$ 3,173,280.06

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2.1

III. Amount to be remitted to CMC

Principal of the 1st loan Gross gain calculated above

Total amount payable to CMC

US\$ 9,960,920.00 US\$ 11,333,143.06 US\$ 21,294,063.06

IV. Utilisation of Funds by CMC

Amount receivable by CMC Less: balance of 11008744

Less: balance of 11009585

Less: Tax @ 28% on US\$11.33M Amount to be retained by CMC (US\$3.0M + refund of interest of US\$672,362.10)

V. Sale of Shares

Book value of the shares as at 31.12.87

Value at 2.69 times the book

Approximate number of shares to be sold to pay US\$21,294,063.06

VI. Remittance and utilisation of the Revised Amount

Amount to be remitted being proceeds of the sale of 3,200 shares € US\$6,800.--per share

Less: amount required for repayment of the two loans and tax as per calculation in section III

Surplus funds with CMC to be remitted to the buyer

US\$ 21,294,063.06 (US\$ 11,922,293.92) US\$ 9,371,769.14 (US\$ 2,526,126.98) US\$ 6,845,642.16

US\$ 3,672,362.10

3,173,280.06)

(US\$



US\$ 21,760,000.00

(US\$ 21,294,063.06)

US\$ 465,936.94

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VII. Calculation of Commission

Loan	4/0	no	. 1	10	087	744
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Balance as per ledger US\$ 11,922,293.92

Less: balance calculated as per loan agreement (US\$ 10,571,201.66)

Commission . US\$ 1,351,092.26

Loan a/c no. 11009585

Balance as per ledger US\$ 2,526,126.98

Less: balance calculated as

per loan agreement (US

Commission DESCENTISCO 36.009.57

Total commission calculated US\$ 1,437,102:13

440,117.41)

CABLE CL-46* "ELES 244556 CLE*

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Cliffind & Warnko Allomnys and Lounsollow at Law 815 Connecticul Avenus Washington, I. B. 20006

J GRIFFIN LESMER

DIRECT LINE 18081 888-4878

August 17, 1988

VIA COURIER

Mr. Kaarel A. Tedder Etrusco International N.V. Schottegatweg Oost 130 P.O. Box 3144 Curacao, Netherlands Antilles

Dear Mr. Tedder:

Kindly send us a certified copy of the updated share register for Credit and Commerce American Holdings, N.V. ("CCAH") as of December-31, 1987, reflecting the 1987 right share purchases. To complete your records, we enclose the letter of acceptance covering 7,959 shares for HH Sheikh Zaied bin Sultan al-Nahyan (as executed by his attorney-in-fact, Robert A. Altman), and the letter of waiver covering 2,803 shares by Abdul Raouf Khalil and the confirmation letter from Mr. M.A. Hammoud to acquire those waived shares.

*

Be further advised that, pursuant to share transfer deeds dated March 31, 1988, Mr. M.A. Hammoud has purchased 3,200 CCAH shares from Mr. Clifford, and 1,600 CCAH shares from Mr. Altman. Certificates nos. 72 (4,495 shares) and 73 (2,247 shares) have been canceled, certificates nos. 99 and 101 reflecting 3,200 and 1,600 CCAH shares issued to Mr. Hammoud, and certificates nos. 100 and 102 issued to Mr. Clifford and Mr. Altman respectively representing the remaining shares still owned under certificates nos. 72 and 73. We enclose copies of the share transfer deeds and CCAH share certificates nos. 99-102 for your records.

Should you have any questions, please let us know.

Graffin Looke

Enclosures

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CCA0009648

..... TEL 44968 CLET

TELEPHONE 18081 828-4801

Clifford & Warnko Attornoys and Counsollors at Law 15 Connectious Averue Washington, D. C. 20006

CONFIDENTIAL AND PRIVILEGED

MEMORANDUM

TO: James E. Lewis

Senior Vice President

FROM: Clark M. Clifford Robert A. Altman

DATE: August 1, 1990

This memorandum is written to provide you with background information concerning certain wire transfers in 1988 you have identified between the Bank of Credit and Commerce International (Overseas) Ltd., and our personal accounts at First American Bank, N.A. It is understood that this information is requested as part of the work you are doing under the direction of counsel in connection with legal advice sought by the Commany with respect to certain pending matters. Company with respect to certain pending matters.

You are informed that in connection with the 1986 Rights Offering to the shareholders of Credit and Commerce American Holdings, N.V. (CCAH), the parent holding company of First American, to raise additional capital for the Company, all of the new rights shares were not subscribed by the shareholders. We determined to acquire a small amount of CCAH shares which were thus available. In this regard, we explored financing of the purchase with possible lenders, including BCCI.

Satisfactory loans with BCCI (Overseas) Ltd. were negotiated by each of us and the purchase of the CCAH shares at the offering price was effected. (Mr. Clifford invested approximately twice as much as Mr. Altman.) Interest was paid on the BCCI loans by checks drawn on our First American accounts.

Memo to James E. Lewis August 1, 1990 Page 2

At the next Rights Offering to the CCAH shareholders in 1987, we each subscribed for the proportionate amount of stock that was then offered to us as shareholders.

In early 1988 we were interested in selling some of our CCAH stock and upon making inquiries in this regard, learned that a Middle East businessman wished to acquire shares of CCAH. As a result, we each sold him, for cash, a portion of our shares. BCCI serviced that transaction and wired to our respective accounts at First American the sale proceeds. From those proceeds we decided to pay off all outstanding indebtedness to BCCI (including interest) and, accordingly, we arranged to wire monies from our First American accounts to BCCI for that purpose. No additional funds have been borrowed from BCCI, and no monies have been owed to BCCI by us since we each nade our respective repayment.

We have each continued to own the balance of our CCAH stock, and again purchased the proportionate amount of shares that were offered to us as CCAH stockholders in connection with a 1989 Rights Offering.

Our small shareholdings in CCAH have, of course, been reported each year to the Federal Reserve in connection with the filings that are made with the Board by First American.

We understand this information will be maintained on a privileged and confidential basis.

ALLEGED BCCI CRIMINAL ACTIVITIES

It is well known that various international intelligence and law enforcement agencies nicknamed the Bank of Credit and Commerce International ("BCCI") "the Bank of Crooks and Criminals" because of its ties to organized crime and South and Central American cocaine cartels as well as for its reputation as a safe haven for laundered drug money. This reputation for illegal activities, which Bank of England president Robin Leigh-Pemberton summed up by stating "the culture of the bank is criminal", was one of the primary reasons why the Federal Reserve became greatly concerned with BCCI's ties to U.S. banks once it was discovered that BCCI potentially controlled Credit and Commerce American Holdings ("CCAH"), an off-shore bank holding company that has controlled, among other things, First American Bankshares, National Bank of Florida.

The following is a list of some of the criminal and regulatory violations that BCCI has either been convicted of or is currently charged with under the laws and regulations of the United States and other jurisdictions where BCCI and its affiliates conducted business.

Financial misdealings

According to a report produced by the accounting firm Price Waterhouse for the Bank of England, BCCI "may never have been profitable in its entire history." The report describes BCCI's activities as "one of the most complex deceptions in banking history" and documents losses of almost \$850 million that were covered up by misappropriated deposits and fictitious loans between the years 1977 and 1985.

An audit of the bank also found that in order to maintain its capital position, BCCI made loans to shareholders for the purpose of buying additional stock at artificially inflated prices. The transactions amounted to little more than moving around existing funds, without the knowledge of depositors, in order to give the bank the appearance of a strong capital base.

Additionally, Price Waterhouse reported that possibly as much as \$600 million in deposits were not recorded as liabilities on BCCI's books. These funds were held in off-shore accounts and moved around as needed to hide losses from non-performing loans.

These violations of banking laws and regulations were the basis for the College of Supervisors, an ad hoc group of international banking Regulators, to take collective action on July 5, 1991 to close down BCCI's operations in the United States (although the Federal Reserve was not a member of the College), United Kingdom, Cayman Islands, Luxembourg, Spain and roughly 60 other nations around the globe where BCCI conducted business through affiliates and branch offices.

On September 8, 1991, plain-clothes police officers arrested BCCI president Swaleh Naqvi and 30 other BCCI top executives at the bank's headquarters in Abu Dhabi. It is reported that the Abu Dhabi officials plan to question Naqvi and the other BCCI executives about the bank's activities, but it is unclear weather the Abu Dhabi government intends to file criminal charges.

Money Laundering

BCCI, S.A., New York

New York District Attorney Robert M. Morgenthau has charged BCCI's New York office with eight counts of failing to file required cash transaction reports between August and October 1988. Additionally BCCI has been charged with falsifying business records in what Morgenthau has described as what "appear to be instances of money laundering."

BCCI Overseas, Ltd., Tampa, Fla.

Following a 1988 undercover investigation by the U.S. Customs Service, BCCI Overseas was convicted of laundering \$14 million in drug money through its florida operations. The two year investigation resulted in 39 arrests in the U.S. and abroad. As a result of the conviction on 29 felony counts of money laundering, BCCI was required to turn over \$15 million to U.S. authorities and was placed on five year probation.

It is alleged that BCCI also laundered money through its branch offices in many of the other 69 countries it conducted business in, most notably Panama and the Cayman Islands.

Other Criminal Activities

BCCI is accused of paying bribes in the amounts of \$3 million in 1986 and 1987 to Peruvian officials in exchange for deposits from Peru's central bank and \$32 million in 1988 to a former employee of BCCI's London office to prevent him from talking about BCCI's activities.

Additionally, BCCI has been charged by the Manhattan District Attorney with the \$30 million theft of funds from the American Express Bank, on the grounds that BCCI solicited the deposits while misrepresenting the bank's financial condition.

Regulatory Violations

Control of U.S. Banks

BCCI has been fined \$200 million by the Federal Reserve for illegally obtaining control of First American Bankshares (Financial General Bankshares at time of purchase) and National Bank of Georgia, and then misleading the Fed with claims that no relationship between BCCI and the U.S. institutions existed.

Legislative basis for BCCI hearings

1. Existing legislation.

Amendments to the International Banking Act were included in the reform package considered in the Committee as a result of the inadequacies uncovered during the Committee's investigation of the BNL scandal and the preliminary work we had done regarding the BCCI situation.

Provisions of H.R. 6

This legislation will give the Federal Reserve authority to screen applications submitted by foreign financial institutions for permission to conduct business in the U.S. Before prior approval is given to foreign entities, the Fed must determine that it has suitable access to information on the operation and activities of the company and that the parent country exercises proper supervision over its financial institutions.

Section 205 of H.R. 6 changes reporting requirements on stock loans. The Change in Bank Control Act currently requires insured depository institutions and their holding companies to report to the Federal banking agencies any loans they make that are secured by 25% or more of the shares of an insured depository institution or its holding company. Section 205 extends this reporting requirement to such extensions of credit when made by any foreign bank.

Section 207 requires approval for the acquisition by foreign banks of shares of United States banks. Under the BHC Act, domestic bank holding companies must obtain approval to acquire more than 5% of the shares of another bank or bank holding company. The International Banking Act provides an exception to this requirement for a foreign bank that operates only a branch, agency or commercial lending company in the U.S. Section 207 eliminates the exception.

Section 210 clarifies the Fed's authority under the BHC Act to consider the competence, experience and integrity of officers, directors and principals shareholders in deciding whether to approve a proposed acquisition of a U.S. bank or bank holding company. This Section also directs the Fed, when considering the managerial resources of a company or bank to also consider the competence, experience and integrity of the officers, directors and principal shareholders of the company or bank.

H.R. 6 substantially increases the civil penalties for violations of these laws.

2. Possible legislative initiatives.

A. Role and Officers and Directors of Financial Institutions.

Prohibitions against outside counsel serving as Directors or Officers of a financial institution. Restrictions on certain financial transactions (i.e. stock ownership, loans, etc.) with financial institutions for principals in law firms who represent that institution.

B. International Supervision and Regulation.

Legislative direction for more aggressive role of U.S. financial regulators in international supervisory organizations, i.e., Basle. Authorization of studies and reports regarding U.S. involvement in the development and participation in international efforts to coordinate supervision and regulation.

C. Tougher U.S. Entry Requirements for Foreign Banks.

Specify requirements which foreign banks must meet to do business in the U.S. For example, foreign bank's parent country must adhere to international guidelines against money laundering, etc.

Control of Financial General (later First American Bankshares)

Summary

The Early Years.

The story of First American begins in April of 1977 when Mr. J.W. Middendorf brings together a group of 20 investors to acquire about 22% of Financial General stock. Under the new ownership, Middendorf becomes President and CEO.

The Lance Group forms.

A few months later, Bert Lance resigns from federal service and joins with Financial General insiders Eugene Metzger and Jackson Stephens to try to gain control of Financial General. In October, 1977, Lance travels to London to seek the financial support of Agha Hasan Abedi, President of BCCI. The bitter fight for control of Financial General formally begins on February 7, 1978, when Lance meets with Middendorf and B. F. Saul to tell them the group of investors he represents seeks control.

Middendorf's rebuttal.

Middendorf fights back and seeks the intervention of the Federal Reserve, SEC and the courts. At issue for the regulators and the courts, as early as 1978, is the question of the role of the four Arab investors who have already purchased almost 20% of all Financial General stock. However, the regulators find that there is no evidence to conclude that the Arab investors have acted as a group. Had they done so without reporting the stock purchase they would have violated federal law. During the investigation, the regulators conclude that BCCI acted solely as financial services advisor and agent for the individuals who bought the stock. To avoid further litigation, the principals enter into a SEC consent agreement in which the investors do not admit wrongdoing, but agree to tend an offer the acquire the stock of all Financial General stockholders. Failure in this effort would require the investors to sell their stock.

Lance's Group Moves to Take Control.

Lance's attorney, Robert Altman, of the firm of Clifford and Warnke, prepares an application to the Richmond Federal Reserve for prior approval of Commerce and Credit American Holdings (CCAH) and Commerce and Credit American Investments (CCAI) as holding companies for the purchase of Financial General stock. In March, 1979, the Fed denies this application on the basis that it violates a Maryland state law prohibiting "unfriendly" takeovers.

With the consent of the SEC and the courts, Altman and the investors persist and prepare to take the fight to the stockholders at the April 30, 1980, Financial General annual meeting. On April 18, Financial General Board Vice Chairman, Dr. Armand Hammer, calls a critical meeting and he, Middendorf and Saul sit down with Altman and former Senator Stuart Symington, the investors candidate for Financial General's Board and principal in the proposed holding company. Investors are told that if stock offer is raised to \$28.50 per share (considerably above \$18-20 market price) Financial General may be for sale. Though the investors accept deal in principle, because of technical problems, the proxy fight continues.

Middendorf's group wins the vote at the annual meeting. Sen. Symington and rest of investor's slate receive only 47% of the votes cast but negotiations on the proposed sale continue. Finally, on July 25, 1980, Financial General and the investors sign a sales agreement. Senator Symington, Mr. Clark Clifford and Mr. Elwood Quesada are elected to the Financial General Board.

The Role of the Federal Reserve.

A new application is submitted to the Federal Reserve in Richmond on November 28, 1980 for prior approval to establish a holding company to acquire Financial General stock. The Fed quickly determines that Maryland law would not be violated by a sale of stock. The Virginia Commissioner of Financial Institutions recommends that the application be denied on the basis of the lack of specific information in the application.

The Fed's summary of the application reveals that 14 Middle Eastern investors intend to form three shell holding companies, CCAH, CCAI and Financial General Bankshares, Inc. for the purpose of acquiring 100% of the common stock of Financial General. Investors will contribute \$219.6 million; \$169.6 million from personal funds and Financial General Bankshares will borrow \$50 million.

On August 14, 1981, investors name Clark Clifford, Chairman of the Board of Financial General Bankshares, and Robert Stevens, President and CEO. From 1976 until March 1981, Bob Stevens was Chairman and CEO of BankOhio in Columbus, Ohio.

Despite the objections of the Virginia Commissioner, the Federal Reserve, on August 19, 1981, approves the application. Soon after, Kidder Peabody organizes the stock offering at \$33.80 per

By April, 1982, the new owners had completed the purchase of Financial General Bankshares stock. One of the first actions of the new streamlined Board of Directors of Financial General was to change the institution's name to First American Bankshares, Inc.

7

DISTRICT ATTORNEY - COUNTY OF NEW YORK

News Release

Contact: Gerald McKelvey

July 29, 1991

(212) 335-9400

A New York County grand jury has returned an indictment that charges that the Bank of Credit and Commerce International (BCCI), its related entities and two of its founders engaged in a multi-billion dollar scheme to defraud its depositors, falsified bank records to hide illegal money laundering, and committed larcenies totaling more than \$30 million, District Attorney Robert M. Morgenthau announced today. The indictment stems from an ongoing investigation of BCCI that began in the spring of 1989.

Charged in the indictment are AGHA HASAN ABEDI, who founded the bank in 1972, and SWALEH NAQVI, who was the bank's chief operating officer until October of 1990. The corporate defendants are BANK OF CREDIT AND COMMERCE INTERNATIONAL, S.A., the leading bank established by ABEDI in 1972, and four subsequently created entities, BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LIMITED; BCCI HOLDINGS (LUXEMBOURG) S.A.; INTERNATIONAL CREDIT AND INVESTMENT COMPANY (OVERSEAS) LIMITED; and INTERNATIONAL CREDIT AND INVESTMENT COMPANY HOLDINGS.

"This indictment spells out the largest bank fraud in world financial history," Mr. Morgenthau said. "BCCI was operated as a corrupt oriminal organisation throughout its entire 19 year history. It systematically falsified its records. It knowingly allowed itself to be used to launder the illegal income of drug sellers and other criminals. And it paid bribes and kickbacks to public officials.

All of the defendants are charged with the crime of Scheme to Defraud in the First Degree and three counts of Grand Larceny in the First Degree.

"By means of this scheme, the defendants obtained more than \$20 billion from its depositors, including citizens and foreign nationals in New York City, banks headquartered in Manhattan, central banks of other nations, and thousands of depositors throughout the world," Mr. Morgenthau said. "The best estimates indicate at this time that upwards of \$5 billion has been lost through this fraud."

The Scheme to Defraud count includes allegations that the defendants paid a bribe of \$3 million to the two senior officers of the Central Reserve Bank of Peru, in exchange for receiving deposits from the bank.

The Grand Larceny counts relate to the loss of more than \$30 million from the American Express Bank Limited on July 5, 1991, when the Bank of England and regulatory agencies in other nations, including the United States, ordered the closing of BCCI. Because BCCI obtained the deposits from American Express Bank through fraudulent means, by falsely representing BCCI's financial condition, the losses are thefts, Mr. Morgenthau said.

In addition, BCCI S.A. is charged with eight counts of Falsifying Business Records in the First Dagree, relating to a

series of instances on which the bank failed to file currency transaction reports on currency deposits of \$10,000 or more in one of the bank's customer accounts, as is required by federal law.

"These transactions appear to be instances of money-laundering," Mr. Morgenthau said.

The top count in the indictment, Grand Larceny in the First Degree, exposes NAQVI and ABEDI to prison terms of up to 25 years on conviction. NAQVI, 57, is living in Abu Dhabi, one of the states in the United Arab Emirates, and ABEDI, 68, is living in Pakistan. The extradition of both men is being sought, Mr. Morgenthau said.

The corporate defendants are exposed to forfeiture actions and fines of millions of dollars on conviction of the charges.

"The corporate structure of BCCI was set up to evade international and national banking laws so that its corrupt practices would be unsupervised and remain undiscovered," Mr. Morgenthau said. "The defendants systematically falsified the capital structure of BCCI to make it appear as though it was a solvent, profitable bank secured by the backing of wealthy businessmen from the Middle East.

"In fact, much of the bank's capitalization and assets were fictitious and its backing illusory," the District Attorney continued. "The defendants created the appearance of respectability by persuading world leaders to appear with them

4

and defrauded their thousands of depositors, both small and large, who relied on that appearance of respectability."

"This largest of Ponzi schemes is over," he said. "But we have much yet to discover about this bank, and much to do in reforming international banking practices. The key to the scheme was that BCCI was structured in such a way so that no single central bank was able to monitor its activities. No foreign bank should be permitted to operate in the United States unless it is supervised by a single, strong central bank and is not bound by bank secrecy laws of another jurisdiction. Without these reforms, the potential for massive worldwide bank fraud remains."

The investigation is continuing, Mr. Morgenthau said.

The District Attorney thanked the Federal Reserve Bank of New York and the Board of Governors of the Federal Reserve System, and the New York State Department of Banking, for their close cooperation from the earliest stages of the investigation.

*Our combined efforts and resources have enabled us to understand one of the most complex and secretive criminal organizations that we have ever encountered, Mr. Morganthau said. *Without the generous assistance and intricate knowledge of bank regulators, this investigation could not have been done.**

He particularly thanked Federal Reserve Board Chairman Alan Greenspan, and William Taylor, Virgil Mattingly Jr. and Richard Small of the Federal Reserve System; and Gerald Corrigan, President of the Federal Reserve Bank of New York, and Ernest

Petrikas and Thomas C. Baxter Jr. of the Federal Reserve Bank of New York.

Mr. Morgenthau also thanked New York State Department of Banking Superintendent Derrick Cephas, Deputy Superintendent Vincent Conlon, former Superintendent Jill Considine, former counsel Barbara Barrantes, and Timothy Mahoney, Jerry Schwartz and Leon Ellen of the Department's Special Investigation Division.

The District Attorney also thanked the Bank of England for its invaluable assistance. "Under British law, the Bank could not assist us without some lawful basis to do so," Mr. Morgenthau said. "Since the time that stage was reached, however, we and the Bank have shared important information in a cooperative and helpful manner."

In the District Attorney's Office, the investigation was conducted under the supervision of Senior Investigator Andrew Finan, assisted by Investigators Mark Baldassare, Robert O'Donoghue and Fred Ghussin and Supervising Investigators Gerald McQueen, Mervin Woike and Thomas Jackson, under the supervision of Chief Investigator Andrew Rosenzweig.

The case was presented to the grand jury by Assistant
District Attorney John W. Moscow, Deputy Chief of the
Investigation Division, who, with Assistant District Attorneys
Richard T. Preiss and Marc Frazier Scholl, is in charge of the
prosecution. They were assisted by Investigation Division Chief
Michael G. Cherkasky.

FEDERAL RESERVE press release



For immediate release

July 29, 1991

The Federal Reserve Board today announced that it has commenced a formal enforcement proceeding against BCCI Holdings (Luxembourg) S.A., two subsidiary banks of BCCI in Luxembourg and the Cayman Islands, a Cayman Islands bank related to BCCI, and several individuals associated with BCCI, for violations of U.S. banking laws. The Board's enforcement proceeding includes the following:

- -- The assessment of a \$200 million civil money penalty against BCCI and its related banks and companies; and
- -- Actions seeking to bar permanently from any involvement with U.S. banking organizations in the future:
 - -- Agha Hasan Abedi, the founder and former president of BCCI;
 - -- Swaleh Naqvi, the former chief executive officer of BCCI;
 - -- Hasan Mahmood Kazmi, a former senior officer of a company controlled by BCCI: and
 - company controlled by BCCI; and -- Kamal Adham, Faisal Saud Al-Fulaij, A. R. Khalil, Sayed Jawhary, Ghaith R. Pharaon, and Khusro Elley, each of whom had relationships with BCCI.

This enforcement proceeding is based on evidence of secret arrangements that were made between senior officials of BCCI and customers of BCCI. These arrangements were designed to allow BCCI to acquire, in the names of these customers, shares of Credit and Commerce American Holdings, N.V. ("CCAH"), which is the parent company of First American Bankshares, Inc.,

Washington, D.C.; the National Bank of Georgia; and CenTrust Savings Bank.

The arrangements typically included loans to the customers for the purchase of shares in these companies with side agreements that the customer would not be required to repay the loans. BCCI was given authority to sell the shares and retain any profits. In return, the customers received indemnities and fees for their participation in the transactions.

These arrangements violated explicit commitments in CCAH's 1980 application to the Board to acquire First American. The application stated that BCCI would have no ownership interest in CCAH or First American; that BCCI was not funding the acquisition of shares in CCAH; and that none of the CCAH shareholders held his interest as an unidentified agent for BCCI. In fact, BCCI funded the acquisition of CCAH shares and was the actual owner of at least 25 percent of CCAH's shares at the time of CCAH's acquisition of First American in 1982.

Evidence obtained during the Board's investigation shows that BCCI resorted to these arrangements because BCCI was told it could not receive the necessary approvals from the Federal Reserve Board to acquire a bank in the United States. Evidence of the loans and nominee arrangements with customers was kept outside the United States and concealed from regulators.

The Federal Reserve Board has made criminal referrals regarding these violations to the Department of Justice. At the request of the U.S. Attorney for the District of Columbia, the

Board has deferred temporarily the assessment of substantial civil money penalties against individuals pending completion of the U.S. Attorney's criminal inquiry.

On January 4, 1991, the Board commenced its formal investigation of BCCI's activities in the United States. This built on inquiries over a considerable period of time into the issue of the relationship between BCCI and CCAH. Evidence obtained in the course of the investigation led to the enforcement proceeding begun today. The Board's investigation is continuing. Additional enforcement actions relating to the BCCI matter are currently being considered.

The Board's action today does not affect the operations of any of the banks in the United States over which BCCI gained control. Earlier this year, the Board issued supervisory orders prohibiting transactions between these banks and BCCI, and ordering BCCI to divest any shares held in the banks. The Board is in the process of overseeing the required divestitures.

A copy of the Board's Notice, which details the illegal transactions, is attached.

Attachment

Legal Developments 737

Credit and Commerce American Holdings. N.V.,

Willemstad, Netherlands Antilles

Credit and Commerce American Investment, B.V.,

Amsterdam, The Netherlands

FGB Holding Corporation, Washington, D.C.

Order Approving Formation of Bank Holding Companies

Credit and Commerce American Holdings, N.V. ("CCAH"), Willemstad, Netherlands Antilles; Credit and Commerce American Investment, B.V. ("CCAI"), Amsterdam, The Netherlands; and FGB Holding Corporation ("FGB"), Washington. D.C., have applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) to become bank holding companies through the acquisition of FGB of up to 100 percent of the voting shares of Financial General Bankshares, Inc. ("FG"), Washington. D.C. FG is a grandfathered multi-state bank holding company with subsidiary banks in Maryland, New York, Tennessee, Firginia, and the District of Columbia.

Applicants have also applied under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.4(b)(2) of the Board's Regulation Y (12 C.F.R. § 225.4(b)(2)) for permission to indirectly acquire, as an incident to their acquisition of FG, shares of National Mortgage Corporation, and Money Exchange Services, Inc., both of Washington, D.C. These companies are existing nonbanking subsidiaries of FG. National Mortgage Corporation, is a small, presently inactive, mortgage banking company, and Money Exchange Service Corporation provides electronic data processing services for certain affiliated banks. Such activities have been determined by the Board to be closely related to banking (12 C.F.R. § 225.4(a)(1) and (8)).

Notice of the applications, affording opportunity for interested persons to submit comments and views, has

^{1.} PG's subsidiary banks are First American Bank. N.A.. District of Columbia: Eastern Shore National Bank. Pocomoke City, Maryland; Ind.: First American Bank of Maryland; Shver Spring, Maryland; Community State Bank. Albany, New York: Bank of Commerce. New York City, New York; Valley Fidelity Bank and Trust Company. Knoxville. Teannessee: and the following Virginia banks: First American Bank of Virginia. McLean: The Valley National Bank. Marrison-burg: The Peoples National Bank of Lessburg. The First National Bank of Lessburg. The First National Bank of Lessington: The Round Hill: National Bank. Round Hill: and Shenandoah Valley National Bank. Winehuster.

253

been given in accordance with sections 3 and 4 of the act (45 Federal Register 85.521 (1980)), and the time for filing views and comments has expired. The Board has considered the applications and all comments received, including those of the Commissioner of Financial Institutions for the State of Virginia and several shareholders of FG.3 in light of the factors set forth in section 3(c) of the act (12 U.S.C. § 1842(c)) and the considerations set forth in section 4 of the act.

CCAH and CCAI first applied to acquire FG in November 1978. The applications grew out of Securities and Exchange Commission ("SEC") allegations that certain individuals, some of whom are principals of CCAH and CCAI, had violated section 13(d) of the Securities and Exchange Act of 1934 by acquiring, as a group, more than 5 percent of the equity securities of FG without making appropriate filings with the SEC. Without admitting or denying these allegations, the defendants entered into a consent agreement with the SEC: according to the terms of that agreement, certain of the defendants represented that they intended to make a tender offer for any and all shares of FG at the previously highest offered price, subject to obtaining appropriate regulatory approvals. CCAH and CCAI were created as the vehicles for making the tender

When these applications were first filed in 1978, the Commissioner of Financial Institutions of the State of Virginia, the Commissioner of Banking of the State of Tennessee, and the Bank Commissioner of the State of Maryland, as well as the management of FG, objected to the applications. In addition, the Attorney General for the State of Maryland issued an opinion interpreting a section of Maryland state law to preclude unfriendly affiliations. Because the Maryland state bank affiliate of FG was objecting to the proposal, the Attorney General found that the proposed acquisition of FG would violate Maryland law. The Board decided to address this legal issue before acting on the merits of the applications, and by Order dated February 15, 1979 (65 FEDERAL RESERVE BULLETIN 254 (1979)). determined that it was precluded by law from approving the applications.3

In July 1980, CCAH and CCAI and their principals, and FG entered into a definitive agreement for the sale of FG's voting shares to CCAH and CCAI. This agreement concluded the struggle over control of FG between FG's management and CCAH and CCAI and their principals, and led to the filing of the subject applications.

Applicants are non-operating corporations organized for the purpose of becoming bank holding companies by acquiring FG. CCAH, a corporation organized under the laws of the Netherlands Antilles, owns all of the outstanding shares of CCAI, which is organized under the laws of The Netherlands. CCAL in turn, owns all of the outstanding shares of FGB, a corporation chartered under the laws of the state of Virginia. Upon acquisition of FG (total deposits of \$2.1 billion). Applicants would control 10.2 percent of total deposits in commercial banks in the District of Columbia, 4.7 percent of such deposits in Virginia, 2.2 percent in Maryland, and negligible percentages of such deposits in New York and Tennessee. Inasmuch as Applicants and their principals control no other banks and engage in no nonbanking business in the United States, consummation of the transaction would have no adverse effects on either existing or potential competition in any relevant market, and would not increase the concentration of resources in any relevant area. Therefore, competitive considerations are consistent with approval of the applications.

The financial and managerial resources of Applicants. FG. and its subsidiary banks are considered generally satisfactory and the future prospects of each appear favorable. The proposed transaction would provide FG with \$12 million in new capital. Moreover, the Board expects Applicants to serve as a continuing source of strength to FG and its subsidiary banks, and Applicants recognize their responsibility to do so. Although Applicants will incur \$50 million in debt in connection with this proposal. Applicants have made certain commitments that ensure that they will be able to service the debt without adversely affecting the financial position of FG or its subsidiary banks. Also, as part of the proposal, Applicants have stated they will not be paying any dividends to their principals in the near future. In the Board's judgment, banking factors are consistent with approval.

Convenience and needs considerations relating to this proposal are favorable. The additional capital to be injected into FG's subsidiary banks is expected to

The Board has determined that the shareholder protests do not ruse issues that would warrant denial of the applications.
 In that Order the Board also determined that section 3(d) of the

set (12 U.S.C. § 1842(d)), which generally prohibits the Board from

approving an application by a bank holding company to acquire voting shares of banks in more than one state, was not applicable to the proposed transaction. While the Board determined that section 3(d) applies to the formation of a multi-state bank holding company as we as the expansion of an existing multi-state bank holding company, the Board held that the Congressional intent of prohibiting the formation and limiting the expansion of such holding companies would be preserved even if the Board approved those applications. The Board reached this determination because the acquisition of FG by these two shell corporations would increase neither the number of multi-state bank holding companies and the number of out-of-home state banks owned or controlled by FG (65 FEDERAL RESERVE BULLETIN at 255-56).

^{4.} Banking data are as of March 31, 1980.

strengthen the organization and allow it to provide new services to the public. Applicants plan to increase the competitive posture of FG by expanding the branch networks of its subsidiary banks, by increasing commercial lending and services, and by establishing an international department at the New York City subsidiary bank. The Board finds that considerations relating to the convenience and needs of the communities to be served lend some weight toward approval of these applications. The Board's judgment is that, with respect to the applications filed under section 3 of the act, consummation of the proposal would be in the public interest and these applications should be approved.

In reaching these conclusions, the Board considered the public comments received on these applications, and has given particular attention to the submissions made by the Commissioner of Financial Institutions for the State of Virginia (the "Commissioner"). The Commissioner made a timely recommendation of denial of these applications, which would ordinarily require the Board, in accordance with section 3(b) of the act (12 U.S.C. § 1842(b)), to order a formal hearing on the applications. However, the Commissioner subsequently concurred in a decision by the Virginia State Corporation Commission to withdraw the request for a formal hearing.

The Board determined it would be useful for Board and Reserve Bank staff to conduct an informal meeting, on the record, to be attended by representatives of CCAH and CCAI. The bank supervisors for the states of Maryland, New York, Tennessee and Virginia, and the Comptroller of the Currency were invited to participate. Only the Commissioner decided to participate in this proceeding held at the Board on April 23, 1981, while all the other invited parties, except for the Banking Department of the State of Tennessee, sent representatives as observers.

The Commissioner was given an opportunity to submit written questions to the Applicants, to make an oral presentation at the meeting, and to submit a closing statement in response to issues and questions raised by representatives of CCAH and CCAI at the meeting. The Board has examined carefully all of these comments, and Applicants' responses thereto, and determined that while the Commissioner has raised issues regarding foreign acquisitions of U.S. banks, and supervisory and regulatory issues related to such acquisitions, these matters were addressed responsively by Applicants, and, in certain instances, have previously been addressed by the Board itself. Ac-

cordingly, the Board finds that the objections of the Commissioner do not warrant denial of these applications.

With respect to the applications to acquire FG's nonbank subsidiaries, the Board has determined that the balance of public interest factors prescribed by section 4(c)(8) of the act favor approval of FG's retention of National Mortgage Corporation (65 FED-ERAL RESERVE BULLETIN 72 (1979)). Nothing in the record suggests that Applicants' acquisition of FG would alter that balance. Money Exchange Services. Inc., provides data processing services to FG's subsidiary banks. It does not appear that the acquisition of this company would have any adverse effect on competition in any relevant area. There is no evidence in the record that consummation of the proposal would. with respect to these applications, result in undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices or other adverse effects on the public interest. Accordingly, the Board has determined that the balance of public interest factors it must consider under section 4(c)(8) of the act favors approval of the applications filed under that section, and that these applications should be approved.

On the basis of the record, the applications are approved for the reasons summarized above. The acquisition of FG shall not be made before the thirtieth calendar day following the effective date of this Order. or later than three months after the effective date of this Order unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Richmond, pursuant to delegated authority. The determination as to Applicant's acquisition of FG's nonbank subsidiaries under section 4(c)(8) of the act is subject to the conditions set forth in section 225.4(c) of Regulation Y, and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

By order of the Board of Governors, effective August 25, 1981.

Voting for these actions: Chairman Volcker and Governors Schultz, Wallich, Partee, and Gramley. Absent and not voting: Governors Teeters and Rice.

[SEAL]

(Signed) WILLIAM W. WILES, Secretary of the Board.

^{3.} In its February 23, 1979 "Statement of Policy on Supervision and Regulation of Foreign Bank Holding Companies." the Board endersed the principle of ostional treatment, or condiscrimination, as a basis for the rules governing the entry and subsequent operations of

foreign banks in this country. The Board noted that the International Banking Act of 1978 generally incorporates that principle in its revisions.

CLARK M. CLIFFORD
PAUL C. WARNEE
LARRY L. WILLIAMS
JONN F. KOVIN
DAVID I. GRANGER
THOMAS RICHARD SPRADLIN
JAMES T. STOVALL, III
ROBERT J. ALTMAN
HARDLD D. MURRY, JR.
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SARRY J. ISRAEL
JOHN G. CALENDER
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202/828-4235

June 15, 1981

13 PROJ

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CABLE ADDRESS

CLINEY

248556 CLEY

of course. SAMUEL D. MC-LWAIN

Mr. Agha Hasan Abedi Bank of Credit and Commerce International 100 Leadenhall Street London, England EC3A 3AD

Dear Mr. Abedi:

As I earlier mentioned to you Mr. Clifford appeared on a television program where he was interviewed in two one-hour segments about his views of our presidents, and more generally, our political system. The show was not only highly entertaining but also fuite instructive. I have obtained for you two video tape recordings of each of the one-hour segments. I believe you will find them fascinating.

I should inform You that we have agreed with the producer of the program that these tapes would not be broadcast or otherwise used by us for commercial purposes. You may, however, feel free to show the tapes and Yoan them to any of your friends, colleagues, or associates who would be interested in this subject.

Let me also apologize for failing to bring you a new tie on our last trip to London. I hope you will consider these tapes to be a suitable substitute. I greatly enjoyed seeing you last week and look forward to our next visit.

Best regards.

Sincerely,

Robert A. Altman

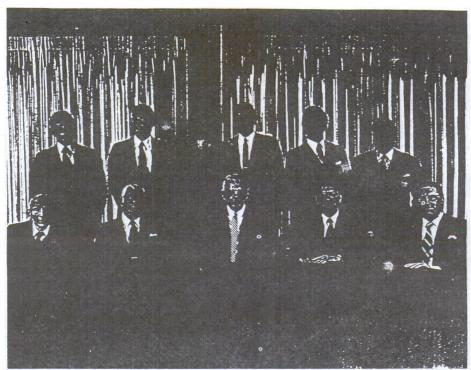
I shu refly the after I have seen the tapes.

1216 27/6 My James Hanid.

erespectations and the

1981 Annual Report

Financial General Bankshares



Front row, left to right. Eugene B. Casey, Stuart Symington, Clark M. Clifford, Robert G. Stevens, B. Francis Saul, II. Standing, left to right. James M. Gavin, Jack W. Beddow, Justin D. Bowersock, Robert A. Altman, Elwood R. Quesada.

To my griend agla Haran Redi with my report and warm regards.



BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

12

MAY 2ND & 3RD 1986

LIST OF PARTICIPANTS

INTERCON/ SHERATON BOARD OF DIRECTORS ABEDI, Agha Hasan I AL-MAZRUI, Ghanim Faris HARTMANN, Dr. Alfred KANDIAH, Peter I I I LAMARCHE, Y.C. TWITCHIN, P.C. VAN OENEN J.D. FED.CALL **ADVISORS** PIRBHAI, M.R. YUNUS, Dr. M. AUDITORS . COWAN, Christopher HARRIS, Richard I HAY, Ken STONE, T. I

GUESTS



IIIIIII

Office Correspondence

June 12, 1991

To: CCAH/BCCI Files

Subject: Passivity Commitments

From: Gregory A. Baer

21-32

1. Board hearing of April 23, 1981; statement of Clark Clifford:

"This investment on the part of these gentlemen can best be described as a passive investment. They do not intend to interfere with the operation of this property. They do not intend to sit on the Board of Directors. They do not intend to instruct the managers of Financial General or of the bank, how to conduct their business. They think it is an excellent investment. These investors are not bankers. They are businessman. They do not feel qualified to operate banks or to give instructions as to how banks are to be operated. What they do wish to do, and what their plan is, to get the right people in to operate the property."

Board hearing of April 23, 1981; statement of Kamal Adham:

P- 58

"I am aware that the staff of the Federal Reserve has generally questioned what managerial philosophy and approach we envision for Financial General and its subsidiaries if our tender offer is successful. Let me be clear on this point. The other members of the investor group and I have no intention of operating Financial General ourselves, setting policy for the company, or sitting on its Board of Directors. We consider this company to offer an attractive investment opportunity, but it is regarded entirely as a passive investment."

3. Board hearing of April 23, 1981; statement of Abdul Khalil:

0.67

"As Mr. Clifford and Sheikh Adham have advised you, I have no intention of taking any active part in operating this property, setting banking policies, or becoming a member of Financial General's Board of Directors."

4. Board hearing of April 23, 1981; statement of Sayed Gohary:

6.68

"As Sheikh Adham has made clear about the intentions of our investor group, I do not intend to be involved in the affairs of Financial General personally. Instead, I shall rely on the expertise and judgment of the new management team and the new Board."

5. Board hearing of April 23, 1981; colloquy between Mannion and Clifford:

91.95-96

"Mr. Mannion: You do not envision Senator Symington being subject to opposing pressures by the individual investors whereby 50 percent would ask that he vote one way and 50 percent ask that he vote another way or some other proportional holding?

"Mr. Clifford: It is inconceivable to me because of the understanding and even commitment that we have with the shareholders as to the manner in which they intend to treat the investment. They have informed us. We have proceeded on that assumption. They have abided by it. But [sic] they remain the passive investor, and that we will continue on with our task, replacing certain persons on the Board."

6. Letter of May 1, 1981 from Altman to Mannion, responding to questions submitted by Sidney Bailey, Virginia Commissioner of Financial Institutions:

6.12

"Question 21: It is assumed that the investors will retain control, directly or indirectly, over major policy-making functions. Should such policies as may be adopted prove detrimental in some respect to FGB and its subsidiaries, under what circumstances and to what extent will the sources of policy be accessible and amenable to regulatory agencies?

Answer No. 21: The question proceeds from an erroneous assumption. The Investors do not intend to direct policymaking or to establish major policies within Financial General, or its subsidiaries, after the acquisition has been completed. The sources of bank policy are to be the Boards of Directors and the management of each of the subsidiary banks with supervision by the management and the Board of Financial General.

7. Letter of May 11, 1981 from Altman to Mannion, responding to questions submitted by New York State Senator Manfred Ohrenstein:

16.2-3

"Question 7: What guarantees do the depositors and borrowers of Financial General Bankshares' two New York banks (Bank of Commerce and Community State Bank) have that this foreign cartel will exercise the same sound fiduciary judgment they have been accustomed to in dealing with these banks?

3

"Answer No. 7: There is no 'foreign cartel' involved in this transaction. There is merely a group of investors who believe that the acquisition of Financial General is a sound investment. The Investors consider this to be a passive investment. They do not intend to sit on the Board of Directors of Financial General or its subsidiaries, or to establish bank policies, or otherwise to operate the Company. The Financial General Board of Directors is to consist of able and distinguished Americans, and the new President and Chief Executive Officer of Financial General will be an outstanding and experienced commercial banker."

cc:

Virgil Mattingly Tom Baxter Rick Small Kit Wheatley Peter Knoll Tim Byrne

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Office Correspondence

June 3, 1991

To: Rick Small

Subject: Statements Regarding BCCI

From: Greg Baer

Attached are statements regarding BCCI that were made in connection with the 1978 and 1980 applications.

If you would like the documents themselves so that they can be exhibits at the deposition, let me know and I will collect them.

cc: Kit Wheatley

2

1978 Application

p. 55. "The proposed individual investors in CCAH have substantial funds and it is contemplated that the funds to be used by each of them to purchase the equity interest in CCAH will be provided from their personal funds and possibly from personal borrowings from one or more financial institutions (which would be unaffiliated with BCCI or any of its affiliates), except that at least an aggregate of \$50 million will be provided from personal funds and not more than an aggregate of \$20 million will be borrowed. Such investors intend that if personal borrowings are made, Financial General Shares purchased pursuant to the Offer will not serve as collateral for such borrowings."

1980 Application

- p. 16. "BCCI owns no shares of FGB, CCAH or CCAI, either directly or indirectly, nor will it if the application is approved. Neither is it a lender, nor will it be, with respect to the acquisition by any of the investors of either FGB, CCAI or CCAH shares."
- p. 35. "All of the investors in CCAH have substantial funds and the funds to be used by each of them to purchase their equity interest in CCAH will be provided from their personal funds."
- p. 41. "No principal of Applicant will retain any personal indebtedness in connection with this transaction."

Hearing, 4/23/81

- p. 45. Clifford (on Kamal Adham): "I have come to have the deepest respect for his character, for his reputation, for his honor and for his integrity."
- p. 55. Kamal Adham: "There is, however, no understanding or arrangement regarding any future relationship or proposed transactions between Financial General and BCCI."
- p. 80. Kamal Adham: "I think that from the line of questions, it appears that there is doubt that there is somebody or BCCI is behind all of this deal. I would like to assure you that each one on his own rights will not accept in any way to be a cover for somebody else."

3

- p. 143. Clifford (asked about the similarity of the names CCAH and CCAI to BCCI): "I think generally the terms 'Credit' and the term 'Commerce' are terms that are used extensively in the Persian Gulf in financial affairs."
- p. 143. Altman (also on the similarity of the names): "Well, it bears -- other than similarity in certain respects, there is no connection between those entities and BCCI in terms of ownership or other relationship."
- p. 144. Clifford (asked about the function of BCCI in the proposal): "None. There is no function of any kind on . the part of BCCI. I think when the question was asked, having to do with what might occur in the future, I think someone may have given the answer, 'Well, that would depend upon the judgment of Financial General in the future.' I know of no present relationship. I know of no planned future relationship that exists, and other than that, I don't know what else there is to say, Mr. Bostian."

Letters and Memoranda

Altman to Bostian, 11/24/78:

"We are advised further that ICIC will have an ownership interest of 4-1/2% of the equity of CCAH but neither BCCI nor any other organization related to BCCI contemplates owning any equity interest in CCAH."

Altman to Kline. 1/12/79:

"The Comptroller's letter raises certain questions concerning the possibility of borrowings by the Applicants' investors to finance part of the purchase price of the Financial General shares contemplated to be acquired. As set forth in the application, not more than an aggregate of \$20 million may be borrowed for this purpose. While the terms of such borrowings have not as yet been finalized, any such borrowings will be made only from recognized banking institutions (having no affiliation with Applicants or the investors) either on an unsecured basis or with collateral not consisting of any shares in either of the Applicants. The balance of the proceeds required to purchase the Financial General shares will come exclusively from the personal funds of the investors, all of which funds derive from the business interests and investments of the respective investors."

Letter from Altman to Mannion, with attached responses to questions submitted by Sidney Bailey, 5/1/81:

[quoting Sheikh Adham's statement at the Board's hearing]

"There is, however, no understanding or arrangement regarding any future relationships or proposed transactions between Financial General and BCCI."

"There is no common ownership of Financial General and BCCI. To the extent some Investors may own minor shares of each Company, that information has been disclosed in submissions made to the federal Reserve during the processing of the Application."

Letter from Altman to Mannion, with attached responses to questions filed with Board by NY Sen. Ornstein, 5/11/81:

"With regard to the stockholders of CCAH, all holdings constitute personal investments. None are held as an unidentified agent for another individual or organization." r:\knoll\bcci\memo328.wpf

DRAFT March 28, 1991

<u>Hearing</u>

ADHAM

- 55-56. There is, however, no understanding or arrangement regarding any future relationship or proposed transactions between Financial General and BCCI. In this regard BCCI is considered an unrelated financial institutions [sic] and whatever relationships are developed between Financial General and BCCI / in the future, if any, are matters to be decided by the new management of Financial General based upon that institution's best interests.
- 59. Certainly if any investor has an idea of [sic--should be "or"] a suggestion regarding this property, it would be communicated to Messrs. Clifford, Altman or Senator Symington, but the ultimate management of the company will and must rest with the Board of Directors and the professional bank managers who are employed.
- 80. I think from that line of questions, it appears that there is doubt that there is somebody or BCCI is behind all of this deal. I would like to assure you that each one on his own rights will not accept in any way to be a cover for somebody else.
- 81. . . . I think we really don't need anybody behind us. We don't need anybody to use us, to be a cover for them. We are doing it for ourselves.

KHALIL

67. As Mr. Clifford and Sheikh Adham have advised you, I have no intention of taking any active part in operating this property, setting banking policies, or becoming a member of Financial General's Board of Directors.

CLIFFORD

- 86. I think it is a group of individuals operating as individuals.
- 144. [In response to question as to function of BCCI at the present time] None. There is no function of any kind on the part of BCCI. I think when the question was asked, having to do with what might occur in the future, I think someone may have given the answer, "Well, that would depend upon the judgment of Financial General in the future." ¶ I know of no present relationship. I know of no planned future relationship that exists, and other than that, I don't know what else there is to say, Mr. Bostian.

2

ALTMAN

143. [T]here is no connction between those entities [CCAH and CCAI] and BCCI in terms of ownership or other relationship.

172-73 (confidential portion). MR. MANNION: There is one common investment that was, I think, divulged, and that's BCCI. Aren't there several --

MR. ALTMAN: Some of the investors have interest in it which we have set forth in our letter to you, minority shares.

MR. TUTTLE: Everyone here [i.e., Adham, Fulaij, Khalil, Gohary], it turns out, / does have an interest in that.

MR. TUTTLE: The list we have given you is out of the 14 investors, these are the only ones who own shares of BCCI.

UNITED STATES OF AMERICA BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D.C.

In the Matter of

CREDIT AND COMMERCE AMERICAN HOLDINGS, N.V.
Netherlands Antilles

CREDIT AND COMMERCE AMERICAN INVESTMENT, B.V. Amsterdam, the Netherlands

and

FIRST AMERICAN BANKSHARES, INC. Washington, D.C.

Docket Nos. 91-002-I-HC1 91-002-I-HC2 91-002-I-HC3

ORDER OF INVESTIGATION

IT IS HEREBY ORDERED, pursuant to 12 U.S.C. 1818(b)(3), 1818(b)(4), 1818(n), 1820(c) and 1844(f) that an investigation be commenced to determine whether Credit and Commerce American Holdings, N.V., Netherlands Antilles ("CCAH"), Credit and Commerce American Investment, B.V., Amsterdam, the Netherlands ("CCAI") and First American Bankshares, Inc., Washington, D.C. ("FAB"), at all times relevant to this Order registered bank holding companies, or their subsidiary banks, their affiliates, or their present or former institution-affiliated parties, as defined in 12 U.S.C. 1813(u), or their related interests, as

defined in 12 CFR 215.2(k), have engaged in violations of law, rule, or regulation in connection with:

- (1) applications filed with the Board of Governors of the Federal Reserve System (the "Board of Governors") for the acquisition of control of Financial General Bankshares or subsequent statements to the Board of Governors relating to the ownership and control of CCAH, CCAI or FAB;
- (2) any extensions of credit obtained by any present or former institution-affiliated party of CCAH, CCAI or FAB, from Bank of Credit and Commerce International S.A., Luxembourg, Luxembourg, or Bank of Credit and Commerce International (Overseas) Limited, George Town, Grand Cayman (collectively referred to as "BCCI");
- (3) the payment or settlement of any extensions of credit described in paragraph 2 hereof; and
- (4) any agreements or contracts between CCAH, CCAI, FAB, BCCI and any of its present or former institution-affiliated parties or among the present or former institution-affiliated parties themselves regarding the purchase of CCAH or CCAI shares or any settlement or repayment of any BCCI extension of credit to present or former institution-affiliated parties of CCAH, CCAI or FAB.

IT IS HEREBY ORDERED, that, for purposes of such investigation, the General Counsel of the Board of Governors or his designees, including officers and employees of the Board of Governors and any of the Federal Reserve Banks, are hereby

designated as representatives of the Board of Governors and are empowered to gather evidence and information, to administer oaths and affirmations, to take or cause to be taken depositions, and to issue, revoke, or modify subpoenas and subpoenas <u>duces tecum</u>, and, for the enforcement hereof, to apply to an appropriate United States District Court, and to perform all other duties in connection therewith as prescribed by law.

By order of the of the Board of Governors, dated this day of January, 1991.

William W. Wiles
Secretary of the Board

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D.C.

In the Matter of

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A. Luxembourg, Luxembourg

and

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LIMITED George Town, Grand Cayman Docket Nos. 91-001-I-FB1 91-001-I-FB2

ORDER OF INVESTIGATION

IT IS HEREBY ORDERED, pursuant to 12 U.S.C. 1818(b)(3), 1818(b)(4), 1818(n), 1820(c) and 1844(f) that an investigation be commenced to determine whether the Bank of Credit and Commerce International, S.A., Luxembourg, Luxembourg and the Bank of Credit and Commerce International (Overseas) Limited, George Town, Grand Cayman (collectively referred to as "BCCI"), their subsidiary banks or agencies, or their present or former institution-affiliated parties, as defined in 12 U.S.C. 1813(u), or their related interests, as defined in 12 CFR 215.2(k):

(1) have acquired, directly or indirectly, control of Credit and Commerce American Holdings, N.V., Netherlands Antilles ("CCAH") and/or First American Bankshares, Inc., Washington, D.C.

("FAB") in violation of Section 3 of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1842); and

(2) have engaged in violations of law, rule, or regulation in connection with applications filed with the Board of Governors of the Federal Reserve System (the "Board of Governors") for the acquisition of control of CCAH and/or FAB or subsequent statements to the Board relating to the ownership and control of CCAH or FAB.

IT IS HEREBY ORDERED, that, for purposes of such investigation, the General Counsel of the Board of Governors or his designees, including officers and employees of the Board of Governors and any of the Federal Reserve Banks, are hereby designated as representatives of the Board of Governors and are empowered to gather evidence and information, to administer oaths and affirmations, to take or cause to be taken depositions, and to issue, revoke, or modify subpoenas and subpoenas duces tecum, and, for the enforcement hereof, to apply to an appropriate United States District Court, and to perform all other duties in connection therewith as prescribed by law.

By order of the of the Board of Governors, dated this day of January, 1991.

By: William W. Wiles

Secretary of the Board

MEMO: TRANSCRIPT OF AMJAD AWAN, BCCI

Background:

Attached are parts of a transcript of an undercover conversation recorded during Operation C-Chase (i.e. Cocaine Chase), a joint Customs Service, IRS undercover drug-money laundering operation. C-Chase, which started in 1986, resulted in the 1988 Tampa indictment of BCCI, and a number of BCCI employees, on laundering the proceeds of drug money.

Amjad Awan, was an officer of BCCI. He was Country Manager for Panama (1981-1984) and stationed in the BCCI's Washington, D.C. representative office from 1984-1986. From 1986-1988 Awan was an officer of the Latin American Division of BCCI stationed in Miami. Awan was indicted along with BCCI in Tampa in 1988. He was later convicted and spent time in jail.

The U.S. Customs Undercover Agent is Mr. Robert Mazur, posing as Robert Musella. His role was to launder drug money for Columbian drug lords during C-Chase. He used BCCI to launder Columbian drug money in the U.S.

Contents:

- During the course of their conversation, Awan mentions that Mr. Altman and Mr. Clifford are BCCI's lawyers.
- He states that BCCI owns First American Bank.
- He states that Mr. Altman is either in the room or advising him to flee a Senate Foreign Relations Committee subpoena by having BCCI transfer him to Paris. The next day he was transferred to Paris.

	d .			
	1	TAPE	144m	
	2	DATE:	9/9/88	
	3	TIME:	5:05 P.M.	
		LOCATION:	Grand Bay Hotel Miami, FL	
	6	PARTICIPANT:	S: Robert Musella, Undercover Agent Amjad Awan Unknown Male Unknown Female	(RM) (AA) (UM) (UF)
	9	Currently lo	e is September 9, 1988 and the time is socated in Coconut Grove, Florida about ay Hotel to speak with Amjad Awan.	

I don't know about the others yet. What I've learned has been not very pleasant. And, ah, I wanted to uh, talk to you personally and tell you about it. What's happened is that we were served a subpoena last month. The bank was and Mr. Shafi our general manager was. I was supposed to have been served also, but with their normal efficiency, they opened the phone book and there's some poor Awan who works for, for Rockwell International. He's a, he's an Aerospace engineer. And, and they turned up at, at his house. You know, totally unexpected.

(LAUGHTER). Did he appear?

(LAUGHTER). No, he didn't. He didn't know what the

19 (RM)

(RM)

(AA)

(AA)

(AA) (LAUGHTER). No, he didn't. He didn't know what the hell was happening poor man.

21

18

20

You should ask him to appear next time . . . (LAUGHTER).

23

Anyway, so, this is why I've been going up and down to London.

-

(RM) Uhm.

(AA)

With our attorneys in Washington and we've had several meetings and, ah, I found that although

they're supposed to be amongst the topmost

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301 EAST REVINEDY SOULEVARD
9017E 601
TAMPA PLORIDA 33602
1013 2232-1232

& DX

i	1		firms in Washington, they didn't come out with, uh,
1	2		any sort of game plan of action and whatever.
į	3	(RM)_	Mmmh.
	4	(AA)	Now, part of the requirement of the subpoena to the
i	5		bank is to give information on all Panamanian
Ĭ	6		corporations. Now, that is impossible, because the
	7		laws of Panama do not cover that. See those
	8		corporations don't have, don't have accounts in the
İ	9		United States.
	10	(RM)	Mmmh.
	11	(AA)	Uh, so they're not going to do that. The bank isn't
Į.	12		going to do that. However, it's a, it's a worrisome
1	13		situation.
ij	14	(RM)	Uh-hum.
1	15	(AA)	If, if they ask for that. Obviously, the bank can't
1	16	· i	give that. The bank can only say that, "Okay, you
i	17	!	ask the government of Panama to give us dispensation
il ti	18		to show you these accounts. Obviously the
4	19		government of Panama is not going to cooperate with
٨	20		the Senate. And that's it. On a personal level,
1	21		last Friday, I was told that, ah, our lawyers, Mr.
i	22		Altman was there, and he suggested to the bank that
i	23	•	I should be immediately transferred from the U.S. to
	24		Paris.
	25	(RM)	Mmmh .
	26	(AA)	So, they duly transferred me Friday to Paris.
ļ		(RM)	Ah.
			-6-
1			

Harris and Associates, Inc.

BOI EAST RENNEST BOLLEVARD
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TAMPA FLORIDA 234602
.613.223-1432

ļ	1 1	(RM)	More so than the other ones that are on there.
	2	(AA)	Right. So, I, I thought this is the time to get the
		_	hell out.
!	3	(RM)	Uh-hum.
	4	(AA)	Because I don't want to get stuck in the situation
i	5 ji		where you know, I suffer, my customers suffer, and,
			uh, you know, and I don't think the bank is doing
	6		the right thing. So
ļ	7	(RM)	What do the attorneys for the bank think they're
	8		going to accomplish, like you say, to send you to
			Paris, it'll just, I guess it'll slow the process
	9		down, maybe they feel that that would
	10	(AA)	Yeah, but see if you antagonize these people much
	11		more, I think that, I don't think we have anything
	12		to worry about. Really, we don't have anything to
	12		worry. Our records can stand up to scrutiny very
	13		well. Yet, the bank is afraid for some reason.
!	14	(RM)	What?
	15	(AA)	The bank is afraid for some reason. They don't want
li	- 4		to they don't want to have something returned. The
ľ	16		attorneys are advising them to take a tough line,
ļļ	17	(53)	and the hell with it.
li	18	(RA) (AA)	Hum. I don't think that's a good
1	:	(RM)	Well, I wouldn't want to see them turn over all
ij	19	(141)	Panamanian corporate records either (LAUGHTER).
	20	(AA)	That they can't. I mean, that's a physical
i	21		impossibility. It just can't happen because those
İ	22		records are not in the U.S. Those records are in
		`•	Panama.
	23	(RM)	Uh-hum.
1	24	(AA)	If they try to pull those records out of there, our
	25		
	26		
	20		
١	1 1		_0_

-9-

Harris and Associates, Inc.
soi East Kennedy Soulevand
Tampa PLONIDA 33002
10.13 223-1822

1			
	2		Wall and and about
OVM	6	(AA)	Well our, our attorneys are, are, they're
1 4 7	7		heavyweights, I mean Clark Clifford is, is sort of
	8		the Godfather of the Democratic party. I mean, when
	9		he calls Jessie Jackson for dinner, that means
	10		Jessie Jackson can receive us for dinner. Uh, you
	11		know, he, he's hot stuff in Washington he's been
	12		the Secretary of State, he's been
	13	(RM)	Yeah.
. 1	14	(AA)	Secretary of Defense. He's been in the White
	15		House since the time of Truman. He was Truman's
1	16		legal counsel. He's like 80 years old, but he's all
	17		there. That's a very heavyweight firm.
	18	(RM)	Uh-hum. (BOTH SAID THANK YOU)
	19	(AA)	You know, that's a powerful firm, but, you know
	20	(RM)	Unfortunately, he's a democrat (LAUGHTER).
XX	21	(AA)	I have, I have totally different, uh, uh, assessment
44/0	22	;	of the situation. And it might be far-fetched, it
	23	•	might sound stupid, but my assessment is, that we
	24		own a bank in Washington. I may have mentioned it
	25		to you before.
	26	(RM)	That you what?
		(AA)	We own a bank, uh based in Washington, it's called
			the First American Bank. The holding company is in
			Washington, and there are 5 banks actually. First
			Harris and Associates, Inc.
			SUITE 401 TAMPA FLORIDA 33602 (8/3) 225-1432
	i! '	if	

4	1 .		American of New York, First American of Washington,
i li	2		D.C., First American of Virginia, Maryland,
	3	-	Tennessee and Georgia. There's six banks. Six
10000	4		large banks, they are \$10 billion dollar banks.
	5		Bought out by BCCI about 8 years ago. Ostensibly,
	6		in the name of AKABS , who also happened to be
1	7		our chairman. And BCCI was acting as advisor to
11 13 16	8		them, but truth of the matter it is that the bank
i	9		belongs to BCCI. Those guys are just nominee
	10		shareholders.
li ii	11	(RM)	Uh-hum.
1:	12	(AA)	Clark Clifford and his, uh, law partner Bob Altman
Ė	13		are the chairman and capital holders. I personally
į,	14		feel it would suit them if BCCI withdrew.
į.	15	(RM)	Ah hah.
1	16	(AA)	And they just take over that entire part of the
ij	17	,	bank. I wouldn't be, I mean because Altman is a
j	18		young man. He's very ambitious. He has political
	19		aspirations. And being a bank President is, you
1	20		know, is, it's not just being another Washington
	21	,	lawyer. But if it sh apart from being married to
İ	22		Wonderwoman, he's also ah, ya know, he's also
-	23	•	chairman of a bank.
į	24	(RM)	Yeah.
	25	(AA)	I wouldn't at all be surprised if, you know, if
	26		they're totally screwing BCCI to take over this
Ì			bank. I, I don't know, but this is the way I see
			it. Because
	1	il	

Harris and Associates. Inc 301 EAST RENNEOU BOULEVARD SUITE 501 TAMPA PLORIDA 32602 .619.225-1638

1		the advice he's giving, in my opinion, I, I just
2		don't respect it. I don't know.
3	(RM) -	Huh. Mmmh. Well, he must owe some favors, though,
4		to be in the position that he is in.
5	(AA)	Well sure, well sure. He, he knows a lot, and uh,
6		that's why I don't want him to represent me. That's
7		why I've gone on to another lawyer.
8	(RM)	Yeah, he has his own reasons for wanting things to
9		go one way or the other.
10	(AA)	Could be, but, I, I don't quite trust him and I
11		don't think that, ah, he is giving the best advice
12		which is why I decided to bail out sooner rather
13		than later.
14	(RM)	Why do you think they're focusing on you though?
15		Because of Noriega or yeah.
16	(AA)	I happen to be the only person in the bank who knows
 		all about Noriega's, uh, accounts and business in,
18		indeed. And ah
19	(RM)	Mmmh
20	(AA),	And, uh
21	(RM)	so they'll hunt for
22	(AA)	And I've told them, "I'm willing to, I'm willing to
23		tell you whatever you want to know," because I think
24		he's ah, he can get away. But I said, "I want, uh,
25		I want to make a deal with you, that whatever I say
26		should be in executive session, and not in open
		session." So, whatever I say, is "in camera". The
		reason being that if say anything about Noriega and
		it's reported by the press, I'm dead. He's Harris and Associates, Inc. 50: EAST ENWEDT SOULEVARD SOUTE SOU
li	H	

\$

Chronology - BCCI

1972-1973 Agha Hasan Abedi, a Pakistani banker, founds Bank of Credit and Commerce International Holdings (BCCI), a Luxembourg holding company.

Jan. 30, 1978 Abdus Sami sent a telex to Abedi to brief him concerning his purchase of FG. He referred to BCCI's "intention to acquire control" of FG. Sami informed Abedi that he had retained former defense secretary Clark M. Clifford, of Clifford & Warnke, as chief counsel. Mr. Clifford would handle any takeover litigation and the necessary filings with the Board of Governors of the Federal Reserve ("Board") under the Bank Holding Company Act.

April 1978 - May 1982 Kidder, Peabody & Co. registers as a foreign agent representative for Agha Hasan Abedi, BCCI, S.A., and others to act as "financial adviser with respect to investment by such foreign principals and/or their associates in Financial General Bankshares, Inc. (FGB) and has assisted them in connection with a contemplated tender offer for shares of common stock of FGB."

July-Aug. 1978 BCCI forms Credit and Commerce American Holdings, as a vehicle for acquiring shares of FG. In statements filed with the SEC, BCCI, Abedi, and the four BCCI clients stated that BCCI would have no interest in CCAH, but ICIC Overseas would own up to 5% of the shares of CCAH.

Jan. 26, 1979 Because of the opposition of FG to the 1978 Application, the Attorney General for the State of Maryland issued an interpretation of the Maryland law stating that because First American Bank of Maryland had opposed its acquisition, the proposed acquisition was a hostile takeover and would violate the State law.

Feb. 14, 1979 The Board expressed agreement with the Maryland Attorney General's opinion and agreed that it would be precluded by law from approving the application. April 18,1980

Investor attorneys meet with FG Chairman Saul, FG President and CEO Middendorf and Dr. Armand Hammer, FG Vice Chairman of the Board. FG Board meeting held at the request of Dr. Hammer. Investors notify that if the CCAI raises its offer to \$28.50 per share, the FG representatives would accept and support the offer.

July 25, 1980 The investors enter agreement with FG management for sale of FG's shares to CCAH and CCAI and the three BCCI clients. FG's Maryland branch approves intent to affiliate with CCAH and CCAI, thereby removing the basis of the Board's dismissal of the 1978 applications.

Sept. 1982 Hong Kong subsidiary of BCCI obtains state license to open San Francisco agency.

April 1982 BCCI Overseas (Cayman) obtains state license to open Miami agency.

October 1983 BCCI Overseas (Cayman) obtains state license to open Boca Raton, Florida agency.

April 1984 BCCI S.A. (Luxembourg) obtains state license to open New York agency.

June 1984 BCCI Overseas (Cayman) obtains state license to open Tampa, Florida agency.

1986 U.S. Customs Service launches undercover investigation named C-Chase. Customs agent posing as money launderer channels millions of dollars in cocaine money through BCCI.

June 1986 In a working paper concerning BCCI, the CIA reports that in late 1981, BCCI made an unsuccessful attempt to acquire or gain control of Financial General Bankshares. According to the report BCCI achieved its goal half a year later. Report distributed to the State Department, Treasury Department, Commerce Department and other agencies. 1986-1988

Clifford and Altman get a BCCI loan to buy CCAH shares, most of which they sell 19 months later for three times what they paid. Clifford and Altman get a \$14 million gross profit.

1988 BCCI and five executives are indicted on charges of laundering drug money through several U.S. banks, including First American by Tampa U.S. Attorney. BCCI forfeits \$14 million.

1989 The Federal Reserve, checking claims in testimony of BCCI's Tampa drug case that BCCI owns First American, asks Clifford and Altman again if BCCI has any financial involvement with anyone who ever owned First American shares. The two fail to disclose their loans from BCCI. Their attorneys say disclosure wasn't required.

Feb. 1, 1989 According to an <u>L.A. Times</u> article of 9/4/91, Special Agent David Burris and his supervisor Maurice Dettmer come to Washington to meet with Mr. Ryback. The IRS agents provide Mr. Ryback with a briefing of the evidence obtained concerning the BCCI-Fist American link. According to the IRS agents, they offered to provide witnesses who would describe how BCCI owned First American. Mr. Ryback does not take any action. Allegedly, he says that he needs documentation to take further action. According to Mr. Ryback, Mr. Burris never mentioned any witnesses.

March 30, 1989 (Paris) Mr. Clark Clifford and Mr. Robert Altman were invited to apprise the BCCI Board of the overall situation of the Tampa cases.

April 1989 A federal grand jury in Tampa returns a superseding indictment against BCCI, alleging that laundering drug money was part of BCCI's corporate strategy.

June 12, 1989 The Board of Governors authorized a consent cease and desist order against BCCI that prohibits further violations of the Bank Secrecy Act and requires BCCI to develop and implement an internal compliance program for monitoring compliance with the Bank Secrecy Act.

Aug. 21, 1989 New York District Attorney representative tells Federal Reserve investigator that an informant has reported that BCCI owns or controls First American through nominees. Investigator writes: "(this is) an allegation that we have heard from other law enforcement agencies."

September 1989 BCCI Overseas (Cayman) closes its Tampa and Boca Raton agencies.

November 1989 College of Supervisors discusses with BCCI management the extent to which their plans with regard to the security on the CCAH loans had been discussed with the American authorities.

Feb. 1990 Federal District Court in Tampa accepts guilty plea from BCCI and places institution on five year probation and asks BCCI to forfeit \$14 million.

Feb. 7 1990 Fed Investigators meet with representative of the Tampa U.S. Attorney Office. Representative of the U.S. Attorney Office states that after investigation by their office no evidence to substantiate rumors has been uncovered.

Fed investigators meet with three agents of the IRS (including Mr. Burris) who state that they had investigated the matter, but concluded that no credible evidence existed to tie BCCI and CCAH. IRS' agents state that they had prepared a report for grand jury and that there was one informant that they would attempt to arrange for the investigator to meet. No mention of meeting with Ryback is made.

Fed investigator is later told by U.S. Attorney representative that the report does not contain any relevant information. Fed investigator continues to try to get report. Fed investigator has not received report as of 9/9/81.

Fed investigator tries repeatedly to talk to informant but is told by informant's wife that informant is out of the country.

April 1990 BCCI informs regulators that all U.S. offices except New York will be closed

May, 1990 Five officers of BCCI are convicted and sentenced to prison after a trial in Tampa. British authorities convict two officers of BCCI. The U.S. government seeks to extradite another BCCI officer from London.

The royal family and government of Abu Dhabi invest in BCCI and increase their stock ownership from 30 percent to 70 percent. The total capital of BCCI is now approximately \$1.5 billion, much of which is expected to be wiped out by loan losses.

Oct. 1990 Abedi and Naqvi, Abedi's chief lieutenant at BCCI, are discharged from the bank.

Price Waterhouse gives the Bank of England a report exposing millions of dollars worth of bad loans and improper accounting procedures.

Dec. 1990 San Francisco BCCI office closed.

Dec. 1990 Robert Morgenthau, Manhattan District Attorney informs the Fed that an audit of BCCI showed \$854 million in loans to First American shareholders using the bank's stock as collateral.

Dec. 13, 1990 Letter from Zafar Iqbal, CEO, BCCI to Middleton Martin of Patton, Boggs & Blow. The letter confirms that BCCI has decided to terminate its banking business in the United States.

Jan. 1991 Miami BCCI office closed.

Jan. 4, 1991 Order of Investigation ordered from the Board of Governors of the Federal Reserve system against BCCI.

March 1991 Consent Order entered between BCCI and Board of governors requiring divestiture of BCCI's interest in CCAH and submission of a written plan for orderly cessation of all banking operations in the U.S..

April 17, 1991 The Board approved a recent request by the New York State prosecutor for disclosure of confidential supervisory information concerning BCCI and CCAH.

April 18, 1991 Federal Banking regulators say the overall condition of First American is "unsatisfactory."

July 5, 1991 Regulators in the United States, Britain, Luxembourg, the Cayman Islands and other nations seize BCCI. State authorities close BCCI offices in Los Angeles and New York.

July 1991 Evidence emerges in Europe that BCCI controls First American through loans to eight front men. Altman disputes the evidence, then, when the Federal Reserve Board later privately produces proof, both Clifford and he claim they were duped.

July 21, 1991 London Sunday Times reports that Abu Nidal's terrorist group used accounts at BCCI in England. Time magazine reports that BCCI maintained a "black network" of employees who engaged in smuggling and money laundering and collaborated with the CIA.

July 29, 1991 BCCI's top two officers are indicted in New York on fraud charges. The Fed charges that BCCI violated banking laws and assesses a \$200 million fine.

August 13, 1991 Clifford and Altman resign as chairman and president, respectively, of First American Corporation. Nicholas Katzenbach, U.S. attorney general in the Johnson administration, is named chairman of First American Bankshares.

Sept. 9, 1991 Plain clothes policemen seize executives of BCCI at the bank's main office in Abu Dhabi.

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED SECOND CONGRESS 2129 RAYBURN HOUSE OFFICE BUILDING WASHINGTON, DC 20515

August 21, 1991

BERNARO SANDERS VER

12021 225-4247

Mr. Clark M. Clifford, Esq. Clifford & Warnke Attorneys and Counsellors at Law 815 Connecticut Avenue, N.W. Washington, D.C. 20006

Dear Mr. Clifford:

The Committee on Banking, Finance and Urban Affairs will hold a hearing related to its investigation of the Bank of Credit and Commerce International (BCCI) on September 11, 1991, at 9:30 a.m., in Room 2128 Rayburn House Office Building. In accordance with our previous conversation, you are invited to testify at the hearing.

The hearing will focus on the alleged ownership of First American Bankshares by BCCI. The Committee asks that your written testimony address the following questions and issues:

- A brief overview of your background.
- How you first became involved with Financial General Bankshares including the individuals that introduced you to 2. representatives of that institution.
- A short history of your entities and individuals: of your relationship with the following
 - cles and individuals:

 BCCI Holdings and its subsidiary banks in Luxembourg
 (BCCI S.A.), the Cayman Islands (BCCI Overseas), and
 International Credit and Investment Company (ICIC);
 Credit and Commerce American Holdings (CCAH) and Credit
 and Commerce American Investments (CCAI);
 First American Bankshares and First American Corporation a.
 - b.
 - c.
 - and their affiliates; Agha Hasan Abedi, Swaleh Naqvi, Ghaith R. Pharaon, Sheik Kamal Adham, and Sheik Zayed al-Nahyan. d.

- 4. A short history of the relationship between Clifford & Warnke and the following entities and individuals:
 - a. BCCI Holdings and its subsidiary banks in Luxembourg (BCCI S.A.), the Cayman Islands (BCCI Overseas), and International Credit and Investment Company (ICIC);
 - Credit and Commerce American Holdings (CCAH) and Credit and Commerce American Investments (CCAI);
 - First American Bankshares and First American Corporation and their affiliates;
 - d. Agha Hasan Abedi, Swaleh Naqvi, Ghaith R. Pharaon, Sheik Kamal Adham, and Sheik Zayed al-Nahyan.
- Describe your positions with, responsibilities to, and functions at, First American, CCAH, CCAI, BCCI, and ICIC. Please provide any relevant descriptive documents.
- 6. Did you, or Clifford & Warnke, ever have knowledge of BCCI ownership or control of CCAH, CCAI or First American? Did BCCI ever influence the management practices of CCAH, CCAI or First American? Please explain.
- A history of your financial relationships including loans, stock ownership, and compensation, in any capacity, with BCCI, ICIC, CCAH, CCAI, and First American.
- Provide a history of the financial relationship, including loans and compensation between Clifford & Warnke and BCCI, ICIC, CCAH, CCAI and First American.
- Please explain any actions performed by you, in any capacity, in facilitating the purchase of Financial General Bankshares by foreign investors.
- Please explain any actions performed by you, in any capacity, in assisting the purchase by First American of the National Bank of Georgia, Bank of Escambia, or any other financial institution.
- Please explain any services rendered by you, if any, in any capacity, in assisting Mr. Ghaith Pharaon's purchase or sale of any bank or nonbank entity in the U.S. including Independence Bank and National Bank of Georgia.
- 12. Please describe your role, and the role of Clifford & Warnke with regard to the BCCI Legal Defense Fund. Please describe First American's involvement in the defense fund.

Banking Committee rules require your written testimony to be made available to Members of the Banking Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., September 10, 1991.

CABLE CLINEY
TELEX 246556 CLEY

TELEPHONE (202) 628-4200

Clifferd & Warnke Attorneys and Counsellors at Law 815 Connecticut Avenus Washington, D.C. 20006

CLARK M. CLIFFORD

DIRECT LINE (202) 828-4269

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SEP 3 199.

icing, Finance & Urban Affairs Com.

September 3, 1991

Honorable Henry B. Gonzalez Chairman, Committee on Banking, Finance and Urban Affairs U.S. House of Representatives 2129 Rayburn House Office Building Washington, D. C. 20515

Dear Chairman Gonzalez:

I thank you for your letters of August 21 inviting Robert Altman and me to testify at the hearing of your Committee on September 11, 1991 at 9:30 a.m. We will file a written statement in proper time and also we will answer the questions contained in your letter. We are looking forward to being with you on September 11.

Cordially yours,

Clark M. Clifford

Committee on Banking, Finance and Urban Affairs September 11, 1991

Memorandum of Law

To: Henry B. Gonsales, Chairman Kelsay Meek, Staff Director

Fr: Barbara Timer, General Counsel

Re: Duties of Directors and Officers; Duties of Attorney/Directors; D.C. Rules of Professional Conduct for Attorneys; Directors and Officers of Holding Companies.

SUMMARY:

This memorandum discusses (1) the duties of directors and officers of banks; (2) conflicts of interest inherent in the attorney/director relationship, including risks to the law firm of the attorney/director; and, (3) additional duties of directors and officers of holding companies.

Table of Contents

Topic	Page	
General Duty of Care, Directors		
and Officers	1	
Business Judgment Exception	5	
Duty of Attorney Retained to		
Represent Bank	6	
Duty of Attorney/Director	9	
Risk to Attorney/Director's Firm	11	
Holding Company's Directors	13	
Special Committees	14	
FIRREA	15	

DISCUSSION:

THE GENERAL DUTIES OF DIRECTORS AND OFFICERS

Corporate directors and officers have a fiduciary duty. This duty usually includes two components: Care and loyalty. In general, the duty of care requires a director to exercise reasonable skill, diligence, and care in taking or refraining from

¹ See "Corporate Governance in the Aftermath of the Insurance Crisis," Roberta Romano, Emory Law Journal, Vol. 39, Fall, 1990, pp. 1155-1189.

board action. The duty of loyalty requires fairness (or disclosure and approval by either disinterested board members or shareholders) in any directors' self-interested transactions.

The duty of care includes3:

- (1) The duty of directors to reasonably monitor or oversee the conduct of the corporation's business, and, as a corollary, to take reasonable steps to keep abreast of the information that flows to the board as a result of monitoring procedures and techniques.
- (2) The duty of inquiry -- that is, the duty to follow up reasonably on information that has been acquired and should raise cause for concern.
- (3) The duties to employ a reasonable decisionmaking process and to make reasonable decisions.

One court has summed up the traditional common law liability of directors to include the following degree of care:

"If nothing has come to the knowledge to awaken suspicion that something is going wrong, ordinary attention to the affairs of the institution is sufficient. If, on the other hand, directors know, or by the exercise of ordinary care should have known, any facts which would awaken suspicion and put a prudent man on his guard, then a degree of care commensurate with the evil to be avoided is required, and a want of that care makes them responsible. Directors cannot, in justice to those who deal with the bank, shut their eyes to what is going on

² These duties are generally defined by either State law or the common law. In addition, the Federal securities laws provide shareholders with rights of action against directors for material misstatements and omissions and other manipulative or deceptive practices. Some states, such as Delaware, impose on directors a fiduciary duty of disclosure (called the duty of complete candor) similar to the Federal requirements. Romano, op. cit. at p. 1157.

[&]quot;The Duty of Care of Corporate Directors and Officers," Melvin A. Eisenberg, University of Pittsburgh Law Review, Vol. 51, Summer, 1990. Professor Eisenberg is also the Chief Reporter of the American Law Institute's <u>Principles of Corporate Governance</u>, Part IV, the duty of care.

around them."4

Each of the responsible Federal banking agencies has adopted guidelines for decision-making by directors of insured depository institutions. In summary, those duties include:

- a. Select and supervise officers and employees.
- b. Establish operating policies and internal controls and take reasonable steps to ensure compliance with them.c. Monitor compliance with applicable laws and regulations.
- Review examination and audit reports and take steps
- to correct deficiencies.
- Avoid placing personal interests above those of the institution.

Civil liability, and in certain instances, criminal liability, may arise from a breach of the director's duties.

The insolvency of the Federal Savings and Loan Insurance Corporation and the pending insolvency of the Bank Insurance Fund have increased our scrutiny of the fiduciary duties and legal obligations of bank directors. William Seidman, Chairman of the FDIC, has testified that directors "bear great responsibility for preventing and detecting fraud and insider abuse. Bank directors

Rankin v. Cooper, 149 F. 1010 (Cir. Ct., W.D. Ark. 1907), at p. 1013. Cited by Rosen and Thomas, op. cit. The authors also cite Francis v. United Jersey Bank, 432 A.2d 814 (N.J. 1985) in which the New Jersey Supreme Court found a corporate director personally liable (negligent) for the failure to prevent the misappropriation of trust funds by other directors who were also officers and shareholders of the corporation.

Guidelines," Office of Thrift 5 "Director Information Guidelines," Office of Thrift Supervision, See "Thrift Regulator Publishes New Director Information Guidelines, "January 10, 1990, OTS Press Release. "The Director's Book: The Role of a National Bank Director," the Office of the Comptroller of the Currency, OCC, August, 1987. "Pocket Guide for Directors," FDIC. The FDIC guidelines expressly reference the OCC's, and the FDIC guidelines have been endorsed by the Federal Reserve.

From "Directors' and Officers' Liability -- 1990," by Mark I. Rosen, FDIC, and John V. Thomas, FDIC, Washington, D.C.

must assure that appropriate internal controls are in place." In fact, courts have held that a director's duty of inquiry "must go beyond merely representations of propriety from the interested parties to an adequate independent investigation." Fitzpatrick v. FDIC, 765 F.2d 569 (6th Cir. 1985).

When can a director rely on management? "Reliance" on management is the most common defense raised by bank directors. But directors cannot rely exclusively on management or act simply as rubber stamps and they may rely on management only when that reliance is reasonable — that is, they cannot ignore warning signals and criticisms in reports of examination, audits, or internal reports of performance. In fact, any such signal requires more active director involvement.

An outside director can more persuasively plead the reliance defense than an inside director:

Outside Directors are directors who are not (or never have been) officers of the bank on whose board they sit. The common law recognizes the more objective perspective that outside or "disinterested" directors may bring to a bank's deliberations and such directors are generally viewed as best able to protect the interests of depositors, customers, creditors and by inference, the insurance funds. 10

Inside Directors are those directors who are also, or have been, officers of the bank. The first inherent conflict may arise from the duty of management to provide board members with the information needed to allow directors to meet their legal responsibilities. In addition, board members have a duty to diligently question management's actions. The board may also have a duty to replace senior management and appoint successors.

⁷ Testimony August 2, 1990, "The Prosecution of Financial Crimes: Hearing Before the Senate Committee on Banking, Housing and Urban Affairs," 101st Cong., 2d Sess. (1990) (statement of L. William Seidman, FDIC Chairman).

⁸ See cases cited at 25 A.L.R. 3d 941.

⁹ Ibid.

¹⁰ See also "A New System of Corporate Governance: The Quinquennial Election of Directors," Martin Lipton and Steven A. Rosenblum, The University of Chicago Law Review, Vol. 58, Winter, 1991, pp. 245-248.

THE "BUSINESS JUDGMENT" EXCEPTION

The "business judgment rule": Directors and officers who have prudently exercised their business judgment have generally been protected from legal liability by the "business judgment rule." But that protection is limited:

"... the business judgment rule ... does not apply in cases . . . in which the corporate decision lacks a business purpose, is tainted by a conflict of interest, is so egregious as to amount to a no-win decision."

The American Law Institute's Principles of Corporate Governance state that the business judgment rule is only applicable if the director or officer is not financially interested in the subject matter of the decision.

Duty of Directors and Officers to the Insurance Funds

Directors and officers are increasingly being targeted as responsible for and sources of reimbursement for the massive losses incurred by the savings and loan and bank insurance funds. In two recent Texas suits, lawyers for the FDIC have claimed that

"particularly because the director defendants were in the banking business, they had an obligation to recognize their institution was primarily engaged in lending depositors' funds which are, in turn, insured under the provisions of the Federal Deposit Insurance Act.

Thus, the director defendants held positions of fiduciary responsibility not only to the bank but also to its depositors and shareholders and to the fund that insured the deposits in said bank."

The suits name 28 directors and officers of the former <u>First RepublicBank Houston</u>, NA, and 39 from <u>Pirst RepublicBank Dallas</u>, NA. Both institutions were taken into FDIC receivership in July

¹¹ Joy v. North, 692 F.2d 880, 886 (2d Cir. 1982), cert.
denied, 460 U.S. 1051 (1983). Emphasis supplied.

^{12 &}quot;FDIC Joins Trend to Define D&Os' Duty As Owed Depositors and to Shareholders," The Banking Attorney, August 9, 1991, p. 4. See also "Keating's Troubles Exemplify the Plight of D&Os' Alleged Responsibility for S&L Industry Woes," Dave Postal, The D&O Report, The Bank Attorney, October 12, 1990, p. 5.

 $^{^{13}}$ The Houston complaint uses the phrase "and to the fund that insured the deposits in said bank."

1988. The list of duties set forth in these two complaints has rightly been described as "exhaustive." 14

ATTORNEYS REPRESENTING INSURED DEPOSITORY INSTITUTIONS

When attorneys are retained to represent an insured depository institution, the institution, not the stockholders, directors, officers, or employees, is considered the client under the Model Code of Professional Responsibility and the Model Rules of Professional Conduct. 15

If a lawyer learns that a fraud has been perpetrated on an administrative body, the lawyer must call upon the client to rectify the fraud. If the fraud is prospective, the lawyer may not counsel or assist the client to engage in the conduct. If the lawyer's services will be used by the client in materially furthering a course of criminal or fraudulent conduct, the lawyer must withdraw. If the client persists in a course of action involving the lawyer's services that the lawyer reasonably believes is criminal or fraudulent, or if the client has used the lawyer's services to perpetrate a crime or a fraud, the lawyer may (but is not required to) withdraw.

¹⁴ MFDIC Joins Trend, Mop. cit. FDIC v. <Names of Directors and Officers>, 91 CIV 1490-G (N.D.TX Dallas); H-91-2073 (S.D.TX Houston.

¹⁵ See "ABA Task Force Studies Liability of Counsel for Depository Institutions," 55 Banking Rep. (BNA) 755, November 5, 1990, cited by Byrd and Sammons, "FDIC Legal Action Against Attorneys and Other Professionals," Banking Law Journal, September/October 1991, p. 423. See also "Balancing the Fourth Branch: Dealing with FDIC/RTC Focus on Attorney Conduct," Dennis Lehr, 57 Banking Rep. (BNA) 59, July 8, 1991.

¹⁶ Rule 3.3, made applicable through Rule 3.9.

¹⁷ Rule 1.6.

¹⁸ Rule 1.16.

¹⁹ Rule 1.16. After withdrawal under Rule 1.16, the lawyer is required to refrain from making disclosure of the client's confidence's, with certain exceptions. Similarly, after withdrawal, the lawyer may retract or disaffirm any opinion, document, affirmation, or the like that contains a material misrepresentation by the lawyer that the lawyer reasonably believes will be relied upon by others to their detriment.

Conflicts of Interest

A lawyer representing the institution may also represent any of its directors, officers, employees, members, shareholders or other constituents, subject to the conflict of interest provisions of the applicable code of professional responsibility.²⁰

The <u>Rules of Professional Conduct</u> for the District of Columbia Bar provide specifically:

A lawyer shall not represent a client with respect to a matter if the lawyer's professional judgment on behalf of the client will be or reasonably may be adversely affected by the lawyer's responsibilities to or interests in a third party or the lawyer's own financial, business, property, or personal interests.²¹

The <u>Rules</u> give an example of the kind of conflict that might arise: If a claim involves serious charges of wrongdoing by those in control of the organization, a conflict may arise between the lawyer's duty to the organization and the lawyer's relationship with the board.²²

When a lawyer acts as intermediary, that is, when a lawyer represents two or more parties with potentially conflicting interests, the risks of such representation and "the potential for confusion is so great" that an explanation of the risks must be made in writing to the parties.²³

FDIC Claims Against Attorneys

Attorneys who provide legal services to institutions that fail may be sued by the FDIC for acts or omissions that constitute

and consent by the client for the lawyer to continue.

 $^{^{\}rm 20}$ Rule 1.13, referencing Rule 1.7, D.C. Rules of Professional Conduct.

Rule 1.7 Conflict of Interest: General Rule.

A potential conflict would require disclosure by the lawyer

²² See comment 12 to Rule 1.13.

²³ Rule 2.2, Comment 1.

malpractice.²⁴ FDIC complaints have also alleged breach of fiduciary duty, negligent misrepresentation, breach of contract, breach of express or implied representation, unjust enrichment, aiding and abetting management in the violation of their legal and fiduciary duties, common law fraud and deceptive trade practices.²⁵

The Office of Thrift Supervision and the FDIC have now publicly expressed the view that **professionals**, **including lawyers**, also may have a fiduciary duty to the deposit insurer. ²⁶ In a complaint filed in 1990, the FDIC also advanced the theory that attorneys representing financial institutions have a duty to the institution to disclose to regulators information regarding questionable bank practices. ²⁷

For example, the Office of Thrift Supervision reached an agreement with the law firm which represented Silverado on June 18, 1991. 56 Banking Rep. (BNA) 1202 (June 24, 1991).

[&]quot;The main message of Silverado is that the days are over in which professionals can close their eyes to the legally and ethically questionable conduct of their clients."

[&]quot;Silverado's Legacy," Comment by Frank J. Parker, American Banker, July 22, 1991, p. 2.

See also "Accountants, Lawyers Face an Enforcement Threat," John K. Villa, American Banker, April 10, 1991, pp. 4,6, which describes the expanded authority under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) for the banking agencies to obtain enforcement sanctions against "institution-affiliated parties", a term that can include attorneys and accountants, as well as other professionals.

²⁶ See "Bank, Thrift Attorneys React to Duties Outlined by OTS Chief Counsel Weinstein," 55 Banking Rep. (BNA) 547, October 1, 1990. Cited in Byrd and Sammons, "FDIC Legal Action Against Attorneys and Other Professionals," Banking Law Journal, September/October 1991, pp. 420-442, 421, describing the FDIC's view of such professionals as having "deep pockets," cite Seidman's testimony before the House Judiciary Committee's criminal justice subcommittee on July 11, 1990, that the FDIC and the RTC have filed more than 500 lawsuits against former directors, officers and other professionals. 55 Banking Rep. 97, July 16, 1990. About twenty-five of the pending suits by the FDIC were against attorneys, and about ten of the RTC's suits were against attorneys. Byrd and Sammons, pp. 421-422.

PDIC v. Eckert Seamans Cherin & Mellot, No. 90-0488 (E.D.N.Y Feb 8, 1990) at pp. 3, 17, 35, and 51. Byrd and Sammons quote Al Byrne, the FDIC's General Counsel, describing the suit (and the duty):

The complaint named as defendants all the individuals who were partners in the law firm from the time the firm was engaged as general counsel for the financial institution and its mortgage servicing subsidiary until the date the institution was closed and all current partners (even though only two partners may have been directly involved in representing the institution).²⁸

THE ATTORNEY/DIRECTOR

The First Rule -- A Higher Standard of Care: The common law has always recognized that a director with certain expertise may be held to a higher standard. For example, in Escott v. BarChris Construction Corp., an attorney/director was held to a higher standard of conduct where the director's law firm had been general counsel and handled all of its securities work including the debenture issue involved in the case. The court held that the attorney/director failed to make a reasonable investigation of facts that he, as counsel, had inserted into the registration statement. The court found that the lawyer had a duty to independently investigate the facts.

The FDIC regularly sues attorneys who also serve (or have served) on the insured depository institution's board of directors. The FDIC generally holds such attorney/directors to a higher standard than other directors and has also sued them for malpractice if they have voted for legally questionable business

[&]quot;We think it appropriate to assert a duty owed <by attorneys, appraisers and accountants> to the regulators who need, in their examinations, to rely upon the quality of the institution's financial information. I don't think it's an unreasonable burden to expect those who have relevant data affecting the financial condition of an institution to disclose those data."

²⁸ See Byrd and Sammons, op. cit., for an extended discussion of the claims in this particular case. The allegations included special interest loans, conflicts of interest, and the quality of representation.

²⁹ At 283 F. Supp. 643 (S.D.N.Y. 1968). See also <u>Feit v. Leasco Data Processing Equipment Corp.</u>, 332 F. Supp. 544, 575 (E.D.N.Y. 1971).

³⁰ Op. cit., "FDIC Legal Action Against Attorneys and Other Professionals," Charles F. Byrd and Isabella W. Sammons, Banking Law Journal, September/October 1991.

practices.³¹ In the FDIC's view, certain losses could have been averted if the attorney/director actively monitored compliance with banking regulations and laws.³²

Attorney/directors are also subject to allegations from other directors that these other directors relied, in making their decisions, on the legal advice given by or implied by the actions of the attorney/directors during board meetings. These allegations may also be used by the FDIC against attorney/directors.³³

The attorney/director wears two hats, and frequently has a conflict of interest: 34

- a. As attorney, he or she is to make decisions and give counsel based on legal standards. As a director, the focus is on business decisions. Other members of the board may not be able to tell whether the attorney/director's vote is a legal or business determination, or both.
- b. If the attorney's firm is general counsel to the bank, a monetary conflict of interest may result. The law firm may benefit more financially from certain bank

^{31 &}quot;FDIC Lawyers Define Bank Director Liability; Higher Standard for D&O Lawyers Argued," J. Michael Hayes, The D&O Report, The Bank Attorney, November 23, 1990, p. 4. "The FDIC traces its power to hold directors and officers of failed banks and thrifts liable for their actions at their institutions not only to statutory law but also to common law . . . all the way back to a 1907 circuit court case . . ."

Op. cit., Byrd and Sammons, p. 422. The article quotes Al Byrne, General Counsel of the FDIC as saying:

[&]quot;It is also clear that a lawyer who occupies a dual position of legal adviser to a financial institution and also sits on the board of directors of that institution, by definition wears the hat of a fiduciary as a director and owes appropriate fiduciary duties to the institution."

³³ Ibid, citing "FDIC Will Target Attorney Malpractice, Agency Counsel Cautions Banking Lawyers," 54 Banking Reporter (BNA) 545-546, March 26, 1990, discussing comments by John V. Thomas, Associate General Counsel for the FDIC's professional liability section.

³⁴ Rosen and Thomas, op. cit., p. 12.

decisions than from others.

c. Some attorney/directors who have tried to argue that they were acting only as directors have had a difficult time explaining why they were paid attorneys' hourly rates for attending board meetings in lieu of or in addition to directors' fees.

THE LAW FIRM ACTING AS GENERAL COUNSEL

Risk to the Attorney/Director's Firm: If the attorney/director acts as both lawyer and director, and may be liable as both lawyer and director, general agency principles may impute the liability of the lawyer to the law firm. Chances of imputing liability to the firm are stronger when the firm acts as general counsel because:

- a. The firm may have been intimately involved in the bank's affairs and benefited financially from the relationship.
- b. It will be difficult to argue that the attorney/director was not acting in the scope of employment as a member of the law firm. The attorney director may be found to have been the firm's 'deputy' on the board. 36
- c. Attorney malpractice policies commonly contain exclusions for liability arising from service on a board of directors of a "for profit" corporation. The malpractice insurer may argue that the attorney/director was not acting as an attorney when serving on the bank's board, and therefore the actions not within the policy's coverage.

In <u>FDIC v. Eckert Seamans Cherin & Mellot</u>, ³⁷ the FDIC sued a law firm which acted as <u>general counsel</u> for both an insured depository institution and its mortgage servicing subsidiary. The claims against the firm are instructive:

³⁵ See also the Uniform Partnership Act, Section 13.

³⁶ See Lanza v. Drexel & Co., 479 F.2d 1277 (2nd Cir. 1973).

 $^{^{\}rm 37}$ No. 90-0488 (E.D.N.Y.Feb. 8, 1990). Discussed extensively in Byrd and Sammons, op. cit.

Breach of Ficuciary Duty -- Failure to Disclose Material Information to the Bank: The firm arranged for a controlling bank director (who had also received a low interest personal loan from the mortgage servicing company to increase his ownership of the bank) to buy the mortgage servicing company through a shell corporation.

Breach of Fiduciary Duty -- Multiple Representation: The firm simultaneously represented the bank, a controlling director of the bank, a mortgage servicing subsidiary that the OCC had required be spun off from the bank, and a Swiss bank which helped finance the director's purchase, through a shell corporation, of the mortgage servicing subsidiary. The FDIC charged that the firm failed to disclose the various conflicts of interest and failed to seek the Board's consent before representing clients with adverse interests.

Legal Malpractice: Various charges, including failing to advise the disinterested directors of procedures to be followed in order for them to exercise "due care" in determining the fairness of transactions and failing to advise the disinterested directors of the substantial likelihood of regulatory disapproval. 38

Breach of Contract: The firm was retained by the bank and agreed to act as general counsel and advise the bank of all applicable statutes and regulations, and to take all necessary steps to insure that the bank was in compliance with applicable banking laws, in order for the bank to operate in accordance with safe and sound banking practices.

Additional Claims Against the Firm: Unjust enrichment³⁹; aiding and abetting the bank's management in the violation of their legal and fiduciary duties; common law fraud; and negligent misrepresentation.

In general, law firms have the responsibility to monitor their lawyers' compliance with professional standards. Claims against law firms which act as counsel to an insured depository institution may include: Failure to take action to protect the bank and its depositors after they knew or should have known of the risks presented to the bank; Failure to monitor and discover the conflicts of interests of partners and associates; Failure to implement sufficient internal procedures for the detection of such

 $^{^{38}}$ See Byrd and Sammons, op. cit., for an extended discussion of these claims.

³⁹ Just prior to the bank's closure by the OCC, the firm demanded a \$1.75 million prepayment of legal fees for the future defense of the banks' directors. Cited in Byrd and Sammons, op. cit.

conflicts of interest or gross mishandling of the bank's affairs; and, Failure to provide reasonable competent and expert legal services to the bank. 40

THE HOLDING COMPANY: ADDITIONAL DUTIES AND CONFLICTS

The Holding Company's Directors and Officers: The insured depository institution may be directly affected by the operations and problems of its parent holding company. Financial and regulatory problems are even more complicated where either the holding company and/or the insured depository institution is a publicly held company with disclosure requirements. Officers and directors of holding companies are coming under increasing scrutiny by the courts because of conflicts that arise when an insured depository institution subsidiary is in financial trouble. For example, the court in a case involving Lincoln Savings discussed the inherent conflicts that can arise between a holding company and its subsidiary:

"This case . . . demonstrates the tremendous conflicts that exist when a holding company operates a federally insured banking institution. If there is to be any reform in this area, the holding company problem must be addressed. A requirement that the banking subsidiary have a totally independent board of directors not unacceptable to the banking authorities is one possible solution."

Potential conflicts between a holding company and its subsidiary bank are well known. In The Director's Book: The Role

⁴⁰ See Byrd and Sammons, op. cit.

⁴¹ See "Hard Choices: Issues Affecting Directors and Officers of Banks and Thrifts in a Hostile Environment," Thomas P. Vartanian, Daniel P. Shcechter, Robert H. Ledig and Timothy R. McTaggart, M&A and Corporate Governance Law Reporter, 1991 Computer Law Reporter, Inc.

⁴² In this case the court found that the upstreaming of \$94 million from Lincoln Savings to its holding company on the basis of a tax sharing agreement was an unsafe and unsound practice that led to a substantial dissipation of Lincoln's assets and fully justified the appointment of a conservator and subsequently, a receiver.

^{43 &}lt;u>Lincoln Savings v. Wall</u>, Civ. Action Nos. 89-1318 and 89-1323 (D.D.C. Aug 22, 1990), slip op. at 47, fn 29.

of a National Bank Director, 44 the Office of the Comptroller of the Currency suggests that if a holding company is engaging in practices that the bank directors fear may harm the bank, the board of directors of the bank might consider hiring independent counsel or an outside accountant and/or raise the issue with the bank's regulators.45

Conflicts are "especially likely to evolve where the viability of the financial institution is in question. Experts have recommended that all such actual or potentially conflicting interests should be separately represented by competent counsel."

SPECIAL COMMITTEES

The Use of Special Committees: Under certain circumstances, it may be appropriate for the board of directors of an institution experiencing financial and/or regulatory problems to establish one or more Special Committees to review the situation and formulate possible solutions. Yes Special Committees usually select and retain outside bankers, consultants or lawyers.

Independent Counsel: The use of separate, independent counsel may be helpful in identifying potential conflicts of interest and may maximize the credibility of the directors in the eyes of the

⁴⁴ August 1987.

⁴⁵ At p. 17.

⁴⁶ From Vartanian, et. al., "Hard Choices," op. cit., p. 45. Emphasis supplied:

[&]quot;Depending on the facts and circumstances of any particular situation, separate counsel should be considered to represent the interests of the institution, the parent holding company, management (particularly if there are allegations of wrongdoing or misconduct at the institution), the board of directors and the outside directors . . . " At pp. 45-46. Emphasis supplied.

^{47 &}quot;Hard Choices," op. cit., at p. 44. The example cited is the Bank of New England, which agreed to the establishment of a Special Committee dominated by outside directors -- a Compliance Committee -- to oversee BNE's compliance with a Federal Reserve Board Cease and Desist Order (dated February 26, 1990).

regulator or the courts. 48 Special Committees often use indendent counsel for just such reasons.

FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989 ("FIRREA)

Liability of Directors and Officers 49

Section 212(k) of FIRREA provides specifically that directors or officers of an insured depository institution may be held personally liable for monetary damages in a civil action brought by the FDIC as conservator or receiver or in its corporate capacity

"for gross negligence, including any similar conduct or conduct that demonstrates a greater disregard of a duty of care (than gross negligence) including intentional tortious conduct, as such terms are defined and determined under applicable State law. Nothing in this paragraph shall impair or affect any right of the Corporation under other applicable law."

The question has arisen whether this language prohibits actions against directors and officers for simple negligence where State law permits. The FDIC's position is that Section 212(k) preempts State laws that establish higher standards of liability than gross negligence but reserves to the agency the right to pursue directors and officers for simple negligence under State laws that have such a standard of liability.

Chairman Seidman has recommended that banks consider providing a separate budget for outside directors and that outside directors consider retaining their own independent counsel to help them evaluate the condition of their banks. "Seidman Recommends Separate Budgets for Outside Directors," 47 Wash. Fin. Rep. 709 (BNA) (1986).

⁴⁹ See also "Liability of Attorneys, Accountants, Appraisers, and Other Independent Contractors Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989," Raymund G. Kawasaki, Hastings Law Journal, Vol. 42, Nov. 1990, pp. 249-283; and, "The Impact of FIRREA on Directors and Officers of Financial Institutions," Ronald R. Glancz and John C. Hockenbury, Issues in Banking Regulation, Winter 1990.

⁵⁰ P.L. 101-73 -- August 9, 1989.

In <u>FDIC v. Canfield</u>,⁵¹ the United States District Court for the District of Utah rejected the agency's reading of the section.⁵² The Court seemed to equate "ordinary negligence" with questioning "business judgment:"

"By the very nature of a bank officer or director's duties, claims of ordinary negligence, without more, may only amount to questioning business judgments. Congress undoubtedly did not want the taxpayers to pay for this type of pursuit."

Presumably the exceptions to the business judgment protection noted earlier in this memorandum would still apply.

⁵¹ 763 F.Supp.533 (D. Utah April 1991).

Washington Report on Financial Institutions, Gibson, Dunn & Crutcher, Vol. 1991-8, August 13, 1991, pp. 1, 6-7. The Gibson, Dunn article also cites "RTC Wants Federal Common Law Rule to Govern Directors' and Officers' Liability," The RTC Watch, July 12, 1991, at p. 4. See also "Simple Negligence Rejected As Basis for Action v. D&Os," The Banking Attorney, No. 91-19, May 17, 1991.

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NEW STREET, THE PROPERTY AND AND ADDRESS OF THE PROPERTY OF TH

OFFICE CORRESPONDENCE

Date:

March 22, 1991

To:

Rick Small

Board of Governors

Froms

Mac Alfriend

Examining Officer

Subject:

Inspection of First American Bankshares

Welcome back from the Persian Gulf!!!

I am enclosing a copy of a letter from Messrs. Altman and Clifford to the Internal Auditor explaining the reason for their BCCI loan. As you can readily tell this version differs somewhat from the understanding we have of the transaction. Also enclosed is a copy of a letter from David Harris of Milbank, Tweed dated Mated May, 1987 responding to questions raised by our applications section concerning financing of the purchase of NBG Financial Corporation. The key section of this epistle is on page 6 where Mr. Harris stated that CCAH in 1986 raise \$150 million through a rights offering and that all the new rights shares had been paid for in cash. Further, he stated that "...less than 5% of this equity capital infusion represented borrowings by shareholders secured by a pledge of shares...". As you recall Hessrs. Altman and Clifford borrowed approximately \$14.9 million from BCCI in July 1986 to buy their shares of CCAH and the stock was held by BCCI as collateral. According to my calculation this represented almost 10% of the \$150 million which if I remember correctly is more than 5%.

MILBANK, TWEED, HADLEY & MCCLOY

International Square Building 1888 Bye Street, N. W. Washington, D. C. 20006

> (202) 634-7500 CABLEI MILTWEED WARMINGTON RAPIFAK 13001 635-7866 1.T. T. 440667 W. U. 68-8881

DIRECT DIAL NUMBER (808) 636- 7562

VIA TELECOPY

May 18, 1987

I SMASS MANHATTAN PLAZA HEW YORK, N. V. 10068

> ALBIANORA HOUSE TO CHATER ROAD HONS RONS

I DOLLEGE MILL LONDON SOAR SRA, ENGLAND

NIPPON PRESS CENTER SUILDING 8-1 UCHISAIMLI-CMS S-CHOME SHIYSBA-NU, TOKYS 196

> SORAPLES PLACE SORAPLES PLACE SINGLED STORE

CONFIDENTIAL TREATMENT REQUESTED

Mr. Stanley H. Flinn, Jr. Financial Analyst Federal Reserve Bank of Richmond 701 East Byrd Street Richmond, Virginia 23219

Re: Application (the "Application") of Credit and Commerce American Eoldings, N.V. ("CCAH"), Credit and Commerce American Investment, B.V. ("CCAI"), First American Corporation ("FAC"), and First American Bankshares, Inc. ("Bankshares") (collectively, "Applicants") to Acquire NBG Financial Corporation and the National Bank of Georgia (collectively, "NBGFC")

Dear Mr. Flann:

By letter dated May 6, 1987, you requested that Applicants address two additional areas before the Application may be considered sufficiently complete to merit acceptance. First, you stated that NBGFC's capital ratios and financial performance were in need of improvement. Accordingly, you requested that Applicants apprise you of the actions they propose to undertake to correct the perceived weaknesses, and furnish you projected financial statements reflecting the anticipated consequences of such actions. Second, with respect to the \$180 million in equity raised (or to be raised) in connection with the transaction, you asked that Applicants advise you as to the source and method of acquiring those funds. Applicants' responses to these questions follow:

- 6 -

2. Source of Funding.

In July 1986, Applicants raised \$150 million in equity capital through a rights offering to the existing shareholders of CCAH, of which \$80 million was applied to the purchase of NBGFC. All such new right shares issued by CCAH were paid for in cash. Less than 5% of this equity capital infusion represented borrowings by shareholders secured by a pledge of shares and no debt was incurred by CCAH. Indeed, CCAH retired a loan in the amount of approximately \$28 million out of a portion of the proceeds of the rights offering, thus further strengthening the Applicants' financial position. It is also noted that \$45 million from the July 1986 rights offering was contributed to the capital of Bankshares.

*

In July 1987, CCAH plans to issue additional shares for cash under a second rights offering and thereby raise an additional \$100 million. It is expected that at least 95% of the funds used to purchase the newly issued shares would again be drawn from the individual resources of the shareholders and that CCAH shares would not be pledged to acquire such newly issued stock.

It is Applicants' understanding that the Board's inquiry regarding the source of funding for the purchase of CCAR shares arises from a concern that shareholders who

- 7 -

need to satisfy their debt obligations may pressure CCAR to pay dividends even through the organization requires additional capital. Applicants submit that such concerns are not warranted. First, from a practical perspective, the shareholders of CCAH have consistently demonstrated a willingness and ability to contribute capital to the Applicants. No CCAH dividends have been paid to any shareholder since the acquisition of Bankshares in 1982, five years ago. Indeed, applicants will have received \$250 million in new equity capital during the last twelve months alone, a pattern hardly suggesting a need by chareholders for cash or intention suddenly to reverse course and cause dividends to be paid. Nor is CCAH a publicly-traded company with any pressure to pay dividends to maintain a market price. No change in the dividend policy is contemplated as a result of this transaction.

Applicants' past practice has been to retain earnings within the holding company system in order to support future growth and to supplement those funds with additional capital as needed. It is anticipated that this practice will continue. Applicants have consistently complied with, and will continue to comply with, the Board's capital requirements.

We trust the foregoing is responsive to your requests. Please feel free to contact me at (202) 935-7562 or Baldwin B. Tuttle at (202) 935-7510 if you have any questions.

Confidential treatment of this submission is requested as it contains Applicants' projections regarding the financial performance of NEGFC. These projections are not otherwise available to the public and their disclosure would be harmful to Applicants.

Bincerely yours,

Calend J. Aco David J. Harris

DJH: ceh



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON, D. C. 20551

J. VIRGIL MATTINGLY, JR. GENERAL COUNSEL

CONFIDENTIAL AND PRIVILEGED

April 23, 1991

Mr. Jean-Louis Fort Secretaire General Adjoint Commission Bancaire Boite Postale No. 174 F-75062 Paris Cedex 2 France



Dear Mr. Fort:

As you are aware from Mr. Ryback's letter of April 16, 1991, the Board of Governors of the Federal Reserve System has ordered a formal investigation into the relationship between the Bank of Credit and Commerce International ("BCCI") and Credit and Commerce American Holdings ("CCAH"). The investigation has been undertaken by the Board of Governors under explicit authority set out in the Bank Holding Company Act of 1956 and the Financial Institutions Supervisory Act of 1966. Copies of the relevant Orders of Investigation are enclosed.

Of particular concern to the Board of Governors in the investigation are the circumstances under which BCCI and its affiliates and nominees gained control of more than 25 percent of the shares of CCAH and its subsidiary, First American Bankshares, Inc., in violation of a provision of U.S. law, the Bank Holding Company Act of 1956. First American is a U.S. bank holding company operating banks in a number of states in this country. In addition, the investigation concerns whether BCCI or CCAH, or both, and their principals and agents have made material misrepresentations and misstatements to the Board of Governors with regard to the facts pertaining to the relationship between BCCI and CCAH, also in violation of U.S. law.

In 1981, in connection with CCAH's application to the Board for approval under the Bank Holding Company Act to acquire the predecessor to First American, representatives of CCAH assured the Board of Governors that there was no affiliation between CCAH and BCCI, other than that BCCI acted as an investment advisor for some of the shareholders of CCAH. At that time, and continuing until December 1990, BCCI and CCAH representatives have stated that BCCI has not provided funding to CCAH or to CCAH shareholders for the acquisition of CCAH stock. As late as the spring of 1990, BCCI representatives assured the Board that BCCI had not provided funding to CCAH shareholders and

that BCCI had no relationship with CCAH, other than the investment advisory relationship and several common shareholders.

In December 1990, BCCI counsel in the United States ("U.S. counsel") informed staff of the Board of Governors that BCCI had made loans to CCAH shareholders secured by over 50 percent of the voting shares of CCAH. Some of these loans dated back to at least as early as 1982. Additionally, Board staff was advised that no interest or principal payments had ever been made on the loans. At a subsequent meeting, U.S. counsel described to Board representatives certain BCCI documents that counsel had reviewed in Abu Dhabi. U.S. counsel stated that his review of a small sample of these documents indicated that a number of the CCAH shareholders held their shares of CCAH as nominees for BCCI.

As part of the ongoing investigations, a subpoena was issued to Banque Arabe et Internationale Investissement ("BAII") on January 31, 1991. The subpoena ordered production of records related to BAII's extension of credit to CCAH or to shareholders of CCAH to purchase CCAH stock. Part of CCAH's initial acquisition of First American was financed by a loan to CCAH from BAII in the amount of \$50 million, which was by CCAH disclosed in its 1981 application to the Board. We have reason to believe from our review of certain records of BCCI that this loan was guaranteed by two CCAH shareholders and that BCCI indemnified these individuals against any loss they might sustain by reason of their guarantee. The records requested of BAII, which would reflect the borrowing by CCAH or its shareholders, who are not French citizens, are crucial to the Board of Governors' investigative effort and would be used by the Board of Governors in discharging its official responsibilities.

Any assistance that you may be able to provide in this matter with respect to the production of the documents by BAII would be most appreciated. The information contained in this letter is highly sensitive because of the ongoing investigation; therefore, I would further request that you keep the letter and its contents confidential.

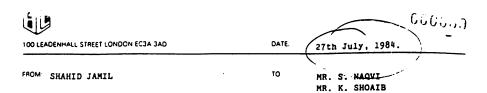
If we can provide you with any further information, or answer any questions, concerning this matter, please call me (202/452-3293) or William Ryback (202/452-2722).

Thank you very much for your cooperation in this matter.

Sincerely,

J. Viigil Mattingly, Jr.

Enclosures



SUBJECT

HALF YEARLY REVIEW OF FAB

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

1D 38

Please find enclosed a review of First American Bank shares for the half year ended June 1984. The Bank has achieved the budgeted figure for deposits and exceeded that for loans. The detailed figures are given on Page 1 of the review and the Bank Managements comments are given in the covering letter dated 19th July, 1984, attached to the Pinancial Report which is enclosed.

I would, however, like to draw your attention to the net income figure of U.S.\$ 11.802 million, which is 1.2% lower than the budgeted income figure of U.S.\$ 11.949 million. The net income before Federal Income Taxes for the half year ended June 1984 was U.S.\$ 17.989 million, as opposed to the budgeted figure of U.S.\$ 20.284 million which is a shortfall of 11.3%. The actual provision for Income Taxes of U.S.\$ 3.762 million is only 20.91% as against the budgeted tax provision of U.S.\$ 5.484 million which was 28.8% of the respective pre-tax income. Thus a U.S.\$ 1.41 million adjustment has been made in the actual provision for taxes to bring the net income after taxes in line with the budgeted net income. The detailed analysis of the FAB group performance is included in the review and financial report attached.

It is, therefore, apparent that Pirst American Bank shares have failed to achieve their budget for the half year ended 30th June 1984, by U.S.\$ 1.56 million.

X

Perhaps Mr. Altman may require some assistance and guitance in enabling him to reach the budgeted income figures in the second half of 1984, without further increasing their loan pointfolio and raising the loan/deposit ratio beyond the existing 64.723.

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SHAHID JAMIL

Agha loke time discussed the half-yearly healts of FAB, with her Altman to draw his attention so to the areas in which he groups income is falling on to the areas in which he groups income to falling and the areas in a pre-tax income toxis.

CABLE CLINEY

TELEPHONE (202) 628-4800

Clifferd & Warnke Attornys and Counsellors at Law 815 Connecticul Avenus Washington, D.C. 20006

January 7, 1991

J. Virgil Mattingly, Jr.
General Counsel
Legal Division
Federal Reserve System
20th Street & Constitution Ave., N.W.
Washington, D.C. 20551

Re: Credit and Commerce American Holdings, N.V. ("CCAH")

Dear Mr. Mattingly:

In response to your request, we have prepared a year-by-year summary of the shareholdings of CCAH from 1982 to 1990 and submit it herewith on a confidential basis.

Should you need any further information, please let us know.

cc: Robert A. Altman Baldwin B. Tuttle n*fil*esher

CCAH Shareholdings 1982-1990

1982 Acquisition

	Tender Offer (3/2/82)		Merger (Class A) (8/28/82)		Year-end (12/31/82)	_3_
Kamal I. Adham	19,050 shs.	19.05%	19,050 shs.	16.32%	19,050 shs.	16.32%
Abdullah Darwaish (for Mohd. bin Zaied al Nahyan) L'	i 13,720 shs.	13.72	13,720 shs.	11.76%	13,720 shs.	11.76%
Faisal Saud al Fulaij	7,180 shs.	7.18%	10,015 shs.	8.58%	10,015 shs.	8.58%
Abu Dhabi Inv. Authority	8,240 shs.	8.24%	8,240 shs.	7.06%	8,240 shs.	7.06%
Stock Holding Co.	8,240 shs.	8.24%	8,240 shs.	7.06%	8,240 shs.	7.06%
A.R. Khalil	8,240 shs.	8.24%	9,907 shs.	8.49%	9,907 shs.	8.49%
Creacent Holding Co.	8,240 shs.	8.24%	8,240 shs.	7.06%	8,240 shs.	7.06%
Mashriq Holding Co.	7,660 shs.	7.66%	7,660 shs.	6.56%	7,660 shs.	6.56%
Humaid bin Rashid al Naomi	7,070 shs.	7.07%	7,070 shs.	6.06%	7,070 shs.	6.06%
A.H. Shorafa	6,480 shs.	6.48%	7,591 shs.	6.51%	7,591 shs.	6.51%
Mohd. Hussain Quabazard	2,940 shs.	2.94%	2,940 shs.	2.52%	2,940 shs.	2.52%
Gulf Inv. Real Estate Co.	1,470 shs.	1.47%	1,470 shs.	1.26%	1,470 shs.	1.26%
Real Estate Dev. Co.	880 shs.	0.88%	880 shs.	0.75%	880 shs.	0.75%
El Sayed El Gohari	590 shs.	0.59%	590 shs.	0.51%	590 shs.	0.51%
Khalifa bin Zaled al Nahyan	N/A	_N/A	11.087 shs.	9,50%	11.087 shs.	9.50%
-	100,000 shs.				116,700 shs.	

1982 Notes

Abdullah Darvaish acted as personal representative for Sheikh Mohammad bin Zaied al-Mahyan, a minor, until consummation of the FGB acquisition in mid-1982. Following the transaction, Sheikh Mohammad assumed legal title to his CCAE shares.

	Rights Offering (12/22/83)		Year-end (12/31/83)		
Kamal I. Adham1/	30,319 shs.	19.42%	26,319 shs.	16.86%	
Adham Corp. Ltd.2/	N/A	N/A	4,000 shs.	2.56%	
Zaied bin Sultan al Nahyan ¹	18,350 shs.	11.76\$	18,350 shs.	11.76%	
Faisal Saud al Fulaij	13,393 shs.	8.58%	13,393 shs.	8.58%	
Abu Dhabi Inv. Authority	11,020 shs.	7.06%	11,020 shs.	7.06*	
Stock Holding Co.	11,020 shs.	7.06%	11,020 shs.	7.06%	
A.R. Khalil	13,250 shs.	8.49%	13,250 shs.	8.49%	
Crescent Holding Co.1/	12,745 shs.	8.16%	12,745 shs.	8.16%	
Mashriq Holding Co.	10,243 shs.	6.56%	10,243 shs.	6.56%	
Humaid bin Rashid al Naomi ¹	9,082 shs.	5.82%	9,082 shs.	5.82%	
A.M. Shorafa	10,154 shs.	6.51%	10,154 shs.	6.51%	
Real Estate Dev. Co.1/	880 shs.	0.57%	880 shs.	0.57%	
El Sayed El Gohari	791 shs.	0.51%	791 shs.	0.51%	
Khalifa bin Zaied al Nahyan	14,828 shs.	_9.50%	14,828 shs.	9.50%	
	156,075 shs.	100.00%	156,075 shs.	100.00%	

1983 Notes

- On December 18, 1983, Sheikh Kamal Adham acquired 2,940 shares from Mr. Hohammed Hussain Qabazard and 1,470 shares from Gulf Investment Real Estate Co. Pursuant to the 1983 Rights Offering, Sheikh Adham purchased the new right shares available with respect to these two holdings (992 and 496 shares respectively). Further with respect to the Rights Offering and his pre-existing 19,050 shares, Sheikh Adham purchased 5,076 new right shares, and waived preemptive rights as to 1,351 shares which were acquired by Crescent Holding Co. In addition, he acquired 295 new right shares waived by Real Estate Development Co.
- 2/ On December 31, 1983, Sheikh Kamal Adham transferred 4,000 shares to Adham Corporation Ltd., a privately held family holding company.
- 2/ On December 16, 1983, Sheikh Mohammad bin Zaied al-Wahyan transferred his 13,720 shares to his father, Sheikh Zaied bin Sultan al-Wahyan, who thereafter acquired the 4,630 new right shares available with respect to this holding during the 1983 Rights Offering.
- During the 1983 Rights Offering, in addition to acquiring 1,351 new right shares vaived by Sheikh Kamal Adham (see Note 1), Crescent Holding Co. acquired 374 new right shares waived by Sheikh Humaid bin Rashid al Naomi.
- 1/ See Note 4.
- 6/ See Note 1.

	Year-end (12/31/84)		
Kamal I. Adham	26,319	shs.	16.86%
Adham Corporation Ltd.	4,000	shs.	2.56%
Zaied bin Sultan al Nahyan	18,350	shs.	11.76%
Faisal Saud al Fulaij	13,393	shs.	8.58%
Abu Dhabi Investment Authority	11,020	shs.	7.06%
Stock Holding Co.	11,020	shs.	7.06%
A.R. Khalil	13,250	shs.	8.49%
Crescent Holding Co.	12,745	shs.	8.16%
Mashriq Holding Co.	10,243	shs.	6.56%
Humaid bin Rashid al Naomi	9,082	shs.	5.82%
A.M. Shorafa	10,154	shs.	6.51%
Real Estate Dev. Co.	880	shs.	0.57%
Sayed JawharyL'	791	shs.	0.51%
Khalifa bin Zaied al Nahyan	14.828	shs.	9,50%
	156,075	shs.	100.00%

1984 Notes

At the instructions of Mr. El Sayed El Gohari, his 791 shares were reregistered in his modified legal name -- Mr. Sayed Javhary. This change of name was effected on July 20, 1984.

1985

Year-end (12/31/85)26,319 shs. 16.86% Kamal I. Adham Adham Corporation Ltd. 4,000 shs. 2.56% Zaied bin Sultan al Nahyan 18,350 shs. 11.76% Faisal Saud al FulaijL/ 14,273 shs. 9.15% Abu Dhabi Investment Authority 11,020 shs. 7.06% Stock Holding Co. 11,020 shs. 7.06% A.R. Khalil 13,250 shs. 8.49 Crescent Holding Co. 12,745 shs. 8.16% Mashriq Holding Co. 10,243 shs. 6.56% Humaid bin Rashid al Naomi 9,082 shs. 5.82% A.M. Shorafa 10,154 shs. 6.51% .51% Sayed Jawhary 791 shs. Khalifa bin Zaied al Nahyan 14.828 shs. 9.50%

156,075 shs. 100.00%

1985 Notes

On February 16, 1985, Real Estate Development Co. sold its 880 shares to Mr. Faisal Saud al Fulaij.

	Rights Offering (8/14/87)		Year-end (12/31/87)		
Kamal I. Adham	34,218 shs.	12.63%	34,218 shs.	12.63	
Adham Corp. Ltd.	6,948 shs.	2.56%	6,948 shs.	2.56%	
Zaied bin Sultan al Nahyan	31,874 shs.	11.76%	31,874 shs.	11.76%	
Faisal Saud al Fulaij	24,791 shs.	9.14%	24,791 shs.	9.14%	
Abu Dhabi Inv. Authority	19,141 shs.	7.06%	19,141 shs.	7.06%	
A.R. Khalil ¹	13,250 shs.	4.89%	13,250 shs.	4.89%	
Mashriq Holding Co.	26,241 shs.	9.68%	26,241 shs.	9.68%	
Humaid bin Rashid al Naomi	15,775 shs.	5.82%	15,775 shs.	5.82%	
A.M. Shorafa	26,956 shs.	9.94%	26,956 shs.	9.94%	
Sayed Jawhary	1,374 shs.	0.51%	1,374 shs.	0.51%	
Khalifa bin Zaied al Nahyan	25,756 shs.	9.50%	25,756 shs.	9.50%	
Mohammad M. Hammoud2/	9,766 shs.	3.60%	9,766 shs.	3.60%	
Khalid bin Salim bin Mahfouz:					
- Windrush Ltd. - Taynton Inv.	5,368 shs.	1.98%	5,368 shs.	1.98%	
Ltd Sarsden Hold-	5,368 shs.	1.98%	5,368 shs.	1.98%	
ings Ltd.	5,367 shs.	1.98%	5,367 shs.	1.98%	
- Shipton Inv. Ltd.	5,367 shs.	1.98%	5,367 shs.	1.98%	
Bleddington Inv. Ltd.	5,367 shs.	1.98%	5,367 shs.	1.98%	
Clark M. Clifford	5,446 shs.	2.00%	5,446 shs.	2.00%	
Robert A. Altman	2.722 shs.	1.01%	2.722 shs.	1.013	
	271,095 shs.	100.00%	271,095 shs.	100.00%	

1987 Notes

- 1/ Pursuant to the 1987 Rights Offering, Mr. A.R. Khalil vaived as to 2,803 new right shares which were acquired by Mr. Mohammed M. Hammoud.
- 2/ See Note 1.

	Year-end	
	(12/31/88)	
Kamal I. Adham	34,218 shs.	12.63%
Adham Corporation Ltd.	6,948 shs.	2.56%
Zaied bin Sultan al Nahyan	31,874 shs.	11.76%
Faisal Saud al Fulaij	24,791 shs.	9.14%
Abu Dhabi Investment Authority	19,141 shs.	7.06%
A.R. Khalil	13,250 shs.	4.89%
Mashriq Holding Co.	26,241 shs.	9.688
Humaid bin Rashid al Naomi	15,775 shs.	5.82%
A.M. Shorafa	26,956 shs.	9.94%
Sayed Jawhary	1,374 shs.	0.51%
Khalifa bin Zaied al Nahyan	25,756 shs.	9.50%
Mohammad M. HammoudL/	14,566 shs.	5.37%
Khalid bin Salim bin Mahfouz:2/ - Burford Investments Ltd.	26,837 shs.	9.90%
Clark M. Clifford1/	2,246 shs.	0.83%
Robert A. Altman±/	1.122 shs.	0.413
	271,095 shs.	100.00%

1988 Notes

- 2/ On March 1, 1988, Mr. Mohammed M. Esamoud sequired 3,200 shares from Clark M. Clifford and 1,600 shares from Robert A. Altman.
- 2/ On August 29, 1988, the 26,837 shares held by the five limited holding companies evaned by the Sheikh Khalid bin Salim bin Hahfous family were transferred to Burford Investments Ltd., a limited holding company solely evaned by Sheikh Khalid.
- 3/ See Note 1.
- 4/ See Note 1.

	Rights Of		Year-en <u>(12/31/8</u>	
Kamal I. Adham	36,493 shs.	12.62%	36,493 shs.	12.62%
Adham Corp. Ltd.	7,410 shs.	2.56%	7,410 shs.	2.56%
Zaied bin Sultan al Nahyan	33,994 shs.	11.76%	33,994 shs.	11.76%
Faisal Saud al Fulaij	26,439 shs.	9.14%	26,439 shs.	9.14%
Abu Dhabi Inv. AuthorityL'	19,141 shs.	6.62%	19,141 shs.	6.62%
A.R. Khalil2/	13,250 shs.	4.59%	13,250 shs.	4.59%
Mashriq Holding	27,986 shs.	9.68%	27,986 shs.	9.68%
Humaid bin Rashid al Naomi	16,824 shs.	5.82%	16,824 shs.	5.82%
A.M. Shorafa	28,748 shs.	9.94%	28,748 shs.	9.94
Sayed Jawhary	1,465 shs.	0.51%	1,465 shs.	0.51%
Khalifa bin Zaied al Nahyan ¹	28,741 shs.	9.94%	28,741 shs.	9.94%
Mohammad M. Hammoud*	18,200 shs.	6.30%	18,200 shs.	6.30%
Khalid bin Salim bin Mahfouz:1/				
Burford Inv. Ltd.	26,837 shs.	9.28	26,837 shs.	9.28%
Clark M. Clifford	2,395 shs.	0.83%	2,395 shs.	0.83%
Robert A. Altman	1.197 shs.	0.413	1.197 shs.	0.413
	289,120 shs.	100.00%	289,120 shs.	100.00%

1989 Notes

- 2/ Pursuant to the 1989 Rights Offering, the Abu Dhabi Investment Authority exercised its preemptive rights as to 1,273 new right shares, and thereafter sold such shares to Sheikh Khalifa bin Zaied al Eshyan.
- 2/ Pursuant to the Rights Offering, Mr. A.R. Khalil valved as to 881 new right shares which were acquired by Mr. Mohammad M. Hammoud.
- 3/ See Note 1.
- 4/ See Notes 2 and 5.
- 2/ Pursuant to the Rights Offering, Burford Investments Ltd. (Sheikh Khalid bin Salim bin Mahfous) valved as to 1,785 nev right shares which were acquired by Mr. Hohammad M. Esamoud.

<u>1990</u>

	Year (12/3)	-end 1/90)
Kamal I. Adham	36,493 shs.	12.62%
Adham Corporation Ltd.	7,410 shs.	2.56%
Zaied bin Sultan al Nahyan	33,994 shs.	11.76%
Faisal Saud al Fulaij	26,439 shs.	9.14%
Abu Dhabî Investment Authority	19,141 shs.	6.62%
A.R. Khalil	13,250 shs.	4.59%
Mashriq Holding Co.	27,986 shs.	9.68%
Humaid bin Rashid al Naomi	16,824 shs.	5.82%
A.M. Shorafa	28,748 shs.	9.94%
Sayed Jawhary	1,465 shs.	0.51%
Khalifa bin Zaied al Nahyan	28,741 shs.	9.94%
Mohammad M. Hammoud ¹	18,200 shs.	6.30%
Khalid bin Salim bin Mahfouz: - Burford Inv. Ltd.	26,837 shs.	9.28%
Clark M. Clifford	2,395 shs.	0.83%
Robert A. Altman	1,197 shs.	0.413
	289,120 shs.	100.00%

1990 Notes

1/ Mr. Mohammed M. Hammoud died in March, 1990. CCAE has requested and is avaiting formal legal documentation from his estate confirming the legal heirs to his CCAE shares.

FEDERAL HESERVE SYSTEM EXHIBIT

BCOMIA 8

Minutes of U.S. Marketing Meeting Held on April 24, 1985 in New York

The following attended:

1. Mr. Aijaz Afridl 2. Mr. Tarlq Jamil

3. Mr. Khusro Karamat Elley NOTE: Afridi, Jamil and Elley are all former BCCI employees hired by Abodi and Elley NOTE: 4. Mr. Amjad Awan

5. Mr. Raja Allahdad

6. Mr. Dilip Munshi

7. Mr. Shaflqur Rehman Khan

8. Mr. Sultan Mohluddin 9. Mr. Musarrat Rizvi

10. Mr. Hasan Parvez

Mr. Louis Saubolle, Mr. S.M. Shafi and Mr. Sani Ahmed could not attend the meeting because of their other engagements.

Matters Discussed

Purpose of the Meeting



Mr. Aijaz Afridi opened the meeting and emphasized that the purpose of the meeting was to coordinate the efforts of different locations of BCC and other institutions so that the President's desire to have a totality in approach is achieved. It is a great challenge that the Group faces in the present and future U.S. operations and this is only by the joint efforts and coordination that we could be able to successfully meet this challenge.

employees hired by Abedi, and blessed by Clifford & Altman to work at First American Bank of New Yor

(Afridi & Elley) or National Bank of Georgia (Jami

Mr. Tariq Jamil described it as very timely meeting and he mentioned of our obligation to succeed and that it is only possible if it's done collectively. Mr. Shafiqur Rehman described this first meeting as the initiation of our efforts to move into the future of BCC in U.S.A. In a calculated and planned way with the uniformity of approach and totality in operational objectives. It is in totality in operations that success lies and an individual or an entity operating in isolation can never grow. The future objectives and greater interests are more important than the present achievements which would have been possible by our individual or isolated approaches. It is through the meetings of this nature that the information will flow, assistance will be provided and the collective view on the U.S. operations will be presented to the C.S.O. so that it may assist them in carving out the policies on growth, expansion, credits and personnel matters.

Marketing

Mr. Aijaz Afridi opened the discussion on marketing by referring to the concept of clear perception and clean instinct and defined clear perception as, "Capacity for comprehension, building a mental picture and then trying this to clear instinct - which is feeling all enveloped by the grand vision of what BCC shall be". He said that our major task in the U.S. should be to build market share. BCC had been a success in Third World and now we are embarked on establishing an equally successful business in the most competitive country in the world. He requested the members to work together to overwhelm the U.S. market and act in a unified manner and be supportive to each other.

Mr. Tariq Jamil described the U.S. market as information driven and information prone. There is a need to update our knowledge of marketing and be fully informed as to the needs of the customer. Historically we have not made calculated approach to the local Indigenous market and have kept depending on the traditional sources of funds. The banking industry is undergoing tremendous changes and this Is In the fold of this change that the success rests. The change always creates opportunities.

Mr. Sakhia advised that we should concentrate on increasing the customers deposit base. As our operations are new and we are trying to build up a bridge between BCC and the prospective market in South America and Caribbean, it is imperative that the customer should be introduced to BCC by every possible effort even if at times we have to attract them by offering better than market rate of interest. Once the relationship are developed the required adjustments in the composition of such deposits could be made. He mentioned that our greatest asset are the people. He suggested that we should set up a coordination desk at every center so that the information is passed on to each other on clients and business whenever there is a movement of these two factors from one place to another.

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- 3-

To update each member of the operations of different units it was agreed to discuss briefly the size and volume of each location's business. Mr. Tariq Jamil presented the following report on NBG: (As on 31/12/84)

Deposits - 996 Million Assets - 1303 Million Profits - 10.4 Million Advances - 742 Million

Nature of Business

- A. Retail and Consumer.
- B. Mid-Size Market (Commercial) Profitable and Relationship Oriented.
- C. Trustee Business.
- D. Bankers to Government Agencies.
- E. Small to Mid-Size Corporate Sector.
- F. Wholesale banking division established to address large corporate sector.

To increase the profitability by growth the following actions have been taken:

- Expansion obtaining charter.
- B. Added more people to marketing.
- C. Decentralizing marketing.
- D. Expenses control.

He mentioned that consumer business is more profitable than commercial business.

BCC Canada

Mr. Allahdad mentioned that it is difficult to operate on the same lines as NBG has been doing because of the difference in operational situation and credit policies for BCC Canada and that of NBG. BCC Canada cannot enter into:

- A. Consumer Loans
- B. Commercial Loans
- C. Credit Card Operations

- 4 -

He was not also happy with the capability of BCC computer facilities to meet the needs of the consumer in the local market place. He mentioned that till 1981, BCC had no acceptability in the local market and the situation has changed totally now and their CD's have an excellent listing. Their customer deposits are around \$200 million, out of which 55% are corporate funds and 45% from the retail sector. The loan portfolio is around \$90 million. Mr. Tariq Jamil discussed with him the possibilities of customer CD's for smaller amounts on the lines of NBG and requested Mr. Raja to explore the probability in the future. Mr. Allahdad mentioned that the reason of low profitability is lesser thrust in the consumer market as compared to more resourceful banks and mainly depending on corporate sector that offers very thin margins on the deals and deposits. In the interest of profitability the capitalisation costs have been kept very low that are negating the efforts to expand.

New York Agency

Mr. Rehman aprised the members of the present situation of the Agency and the process through which it has passed during the last one year. Because of its inability to open customer deposit accounts much could not be done in this sector and most of the time was consumed in setting up the office and systems so that it could be ready to accommodate all business that has to come.

In march, 1985 after the passage of New York State Omnibus Banking Bill the Agency has been authorized to accept all kinds of non-resident/non U.S. citizen deposits of all denominations. The initial work has been completed on the printing of account opening forms etc..., and after the concentrated marketing efforts positive results as expected. On the business side there has been an increase at an accelerated pace and the take off situation is very near. The New York Agency is fully automated and is member of S.W.I.F.T. and associate member of New York Clearing House. It has the operational capability to handle all kinds and volume of international business.

- 5 -

Miami

Mr. Sakhia informed that the Miami Agency stands in third position among the foreign agencies in Miami. The Caribbean Region has contributed 13.5 % to the growth of total deposits to the Group during 1984. BCC has all the acceptance of the local financial community. Mr. Sakhia sugested that they should have a joint approach in handling the U.S. business and that a consolidated and unified presentation should be made to C.S.O. to understand our operational problems and that a coordination team should be formed to collect information on the movement of the existing clients and the prospective clients.

Latin American Region

Mr. Musarrat Rizvi informed that their region has generated 200 Million dollars of deposits out of which 80 Million dollars has been placed in other BCC units. The projected figure for 1985 is 800 Million dollars out of which 150 Million are expected to be placed with other offices of BCC during 1985. Their operation in Peru and Argentina will start this year and it is expected that the Latin American Region will give a profit of 10 Million in 1985. He assured that every possible effort will be done to assist all the centers in their growth.

San Francisco

Because of the nature of operations San Francisco Agency had mainly been catering for the Chinese businesses. Alr. Mohiuddin recently traveled in the Middle East and was successful in generating substantial amounts of deposits that has been placed with the Agency. He was confident that all efforts will continue to increase the size and effectiveness of their office.

Los Angeles

Mr. Munshi informed that his market is predominantly the ethnic community for retail deposits. Like San Francisco they have to depend on deposits from Hong Kong, Canada and Middle East. He had poor response from most American companies that mainly deal with other U.S. Banks and he consequently concentrated on Inter-bank money market. He was of the opinion that in the interest of profitability the loan portfolio is to be increased. In order to have an entry in High networth individuals sector, they are planning to open an office in Beverlyhills very shortly.

- 6 -



Mr. Elley gave a background of the history of FAB Group, expecially New York, describing the role of the investors and how the emphasis was on developing New York. He described that In addition to providing a range of full services from New York, the main focus would be on creating a powerful International Division and very strong Money Market and F.X. Operations, since these are two areas which had not been available in the FAB Group. He reported that the Bank in New York was fully operatoinal and offerred in the International Area, Correspondent Banking Services, Trade Finance and Private Banking. Additionally, they were doing Domestic Banking through a network of 44 Branches, which were engaged in all the retail services from Mortgages to Auto Loans. A corporate Division looked after the Middle Market and the larger companies, while the Treasury area was now very active in Money Market and Foreign Exchange Markets. FABNY is also a member of CHIPS and SWIFT, and had started handling the accounts of a number of BCC Branches.

Partly as a result of a number of acquisitions made in the previous year, the Bank has now achieved a size of \$800 million in assets and has a capital of \$100 million. It was expected that by the end of 1985, Assets would reach \$1 billion in New York.

They were presently facing the following problems:

- New York City overheads were high and the dilemma was how to be in profit from year one.
- Because of its acquisition programme, the Bank was currently a combination of 3 Banks, and a lot of Management time was being spent to form them into one Bank.
- Sophisticated automation and systems had been put in place. This initially created teething problems, which are now almost resolved, but they had nevertheless taken up considerable time.
- They were having to work very hard in creating a joint personality of the Senior Management.

To the question of Mr. Jamil on the application of funds Mr. Elley explained different outlets and also agreed with Mr. Jamil that he would do a research on the processing of Cash Letters of Savings and Loans Associations, Thrifts and Credit Unions that has been Ignored by money center banks.

Washington Representative Office

Mr. Amjad Awan was requested to provide the timely information on domestic and international deals.
Mr. Jamil described Washington as a seat of decision making on major policies on trade and banking business. Mr. Awan assured that they are gearing up to meet the increasing requirements and expectations of assistance of BCC Group.

Conclusion

Mr. Elley concluded that in America we are sitting on 7 Billion dollar assets and this is just the beginning. There is much to do and inspite of diversity of operations as different agencies and banks we have to find a common denominator. The U.S. Team should play an imporatnt role in identifying the products in the market and also to improve the resources and also set up an overall direction.

Mr. Sakhia expressed that it is a "uniques experience" the U.S. operations have been started by a team of younger and energetic individuals. He suggested that these meetings should be a continuing process and while we meet next time we should come up with recommendations and proposals on what we could do for each other.

It was agreed by consensus that instead of isolated approaches to C.S.O. to present our problems a joint approach should be made that would give a clear prospective on the needs and requirements in the U.S. market.

The participants unanimously agreed to nominate Mr. Shafiqur Rehman Khan as coordinator of these meetings. The next venue of the meeting was decided to be in Miami on June 1, and specific items for the Agenda to be advised to Mr. Shafiqur Rehman for circulation.



BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM FXHIRIT

BCMIA 9

MEETING OF AMERICAS CO-ORDINATING COMMITTEE

Held on June 2, 1985 at BCC Caribbean Regional Office in Miami.

The following attended:

Mr. S.M. Shafi Mr. Aijaz Afridi Mr. K.K. Elley Mr. Bande Hassan Mr. Amjad Awan

Mr. Shafeeq R. Rehman

Mr. Louis Soubole

Mr. Sani Ahmad

Mr. hunanwar Hussein Mr. Hassan Parvez Mr. Abdur R. Sakhia

Minutes of the previous meeting held on April 24, 1985 in New York were reviewed. It was unanimously decided that in future the minutes should distill the spirit and content of the meeting together with decisions made by consensus. Minutes should not reflect personalities and produce verbatim discourse.

After some discussions, it was felt that since the meeting on April 24 did not have form and structure, we should start afresh from now. This was especially important since two very senior colleagues Mr. S.M. Shafi and Mr. Soubole had not been able to attend April 24 meeting.

However, since the first meeting was a milestone in bringing about a new process of evolution of BCC in America, and so many valuable contributions were made, the spirit of that meeting should always remain as an eternal part. Two sets of minutes were adopted.

It was proposed to nominate Mr. Shafi to chair today's meeting which was unanimously adopted. A proposal to rotate the chairman at every meeting was discussed, but it was felt that to give form and continuity, there should be a permanent chairman and permanent secretary/co-ordinator. Mr Sakhia was proposed as co-ordinator and secretary to this committee; this was agreed by consensus. Mr. Afridi was proposed to be the alternate chairman to preside over the meeting in the absence of Mr.S.M. Shafi.



It was also proposed that membership should be determined and only Heads of various locations should attend this meeting as sanctity would be lost if various substitutes were to attend. It was felt, however; that in some cases an alternate should also be nominated who will be present in the absence of the members.

The following list of members were approved:

	LOCATION	MEMBER ★	ALTERNATE
1.	Latin America Region	Mr. 5.M. Shafi	Mr. Bande Hasan
2.	West America Region	Mr. L. Soubole	(to be advised)
3.	Caribbean Region	Mr. Abdur Sakhia	Mr. Hassan Parveż
4.	New York Agency	Mr. Shafique Rahman	Mr. J. Razzaki
5.	BCC Canada	Mr. Raja Allahdad	Mr. M. Hussain
6.	Banco Mercantil	Mr. Ferozedean	No alternate
7.	First American	Mr. Aizaz Afridi/	
		Mr. K.K. Elley	No alternate
8.	Natl. Bk. of Georgia	Mr. Tarig Jamil	
9.	BCCI Washington	Mr. Sani Ahmad	Mr. Amjad Awan

The name of this committee was agreed to be "Americas Coordinating Committee". It was also agreed to send minutes of the meeting to the President Mr. Agha Hassan Abedi, Mr. Swaleh Naqvi and Mr. Kemal Shoaib.

Matters arising from previous meetings were discussed:

I. Co-ordination Desk.

In persuant of the previous decision to set up a co-ordination desk at each centre. Function of this desk will be as follows:

- 1) To co-ordinate inter-regional marketing.
- To provide protocol and courtesy to customers from other areas.
- To make referrals of customers and potential clients, visiting other locations to these desks.
- To exchange information on prospects and potential businesses.



The following were designated to be the contact officers at various locations.

AREA	CONTACT PERSON	LOCATION
Latin America	Mr. Akber Bilgrami	1200 Brickell Ave. Mismi, Fl. 33133 Telephone: Telex
West America	Mr. Zafar Saleen	

. Caribbean Mr. Saad Shafi

Canada To be advised by Mr. Raja

First American Mr. Mansoor Shafi

Natl. Bk. of Georgia $\,\,$ To be advised by Mr. T.Jamil



It was proposed and agreed that when each location holds the marketing conference, all units should be informed and invited to send participants, as was done by the Caribbean Region and Latin American Region to bring about great interfusion.

The committee was informed that the next Caribbean Regional Marketing Conference will be held in Miami, on July 13 1985 and all were invited to attend and/or nominate participants.

It was also proposed to request Agja Saheb and other collegues from C.S.O. to address a Hemisphere-wide Marketing meeting for 30 to 40 participants frdm Americas. It was also proposed that the subject meeting may be held in Miami, subject to Agha Saheb's convenience.

Mr. S.M. Shafi clarified the presentation given by Mr. Rizvi in the previous meeting that actual profit contribution by the LAR would be higher than \$`10M but would not reflect in the books of the units of the Latin America Region as substantial deposits generated by units in LAR were place with the units in other Regions.

II. MARKETING.

Mr. Shafi also requested that since various people had dealt with various countries in South America and had developed various contacts and relationships, it would be useful if these contacts could be passed on to L.A.R.

Mr. Afridi mentioned that there were two Latin Officiers in First American Bank who had been successful in Marketing, and he will request them to prepare a list of their contacts and send it to Mr. Shafi.

Possibilities of BCC Agencies procuring Mortgage business and selling it to First American was discussed. In this connection a preliminary meeting was held in Washington. Mr. Elley would arrange a meeting in New York with Mr. F.A. Nyoulz and First American in Washington for Mr. Sakhia and Mr. Parvez.



A synopsis of Commodity Credit Corporation business was discussed. Mr. Sakhia requested L.A.R. to help marketing in South American countries. He was informed that similar marketing efforts are being launched with the help of other regions.

Mr. Afridi mentioned that he was appreciative of the co-operation of the Caribbean region in giving them both deposits and asset business.

Mr. Shafique Rehman informed the committee that a Cayman Desk and a home remittance desk were set up in the New York agency for providing better service. Mr. S.M. Shafi informed the committee that a new branch is being opened in Grand Cayman to provide full service. Mr. Sakhia mentioned that the Bahamas branch in Nassau was in full operation, and all units can direct business to Nassau.

It is believed that Central Marketing already has Americas desk in London and so, persons concerned may be invited to visit all units in the U.S.A.

III. CREDIT

The group was appreciative of the fact that the process of credit sanction has been expedited by C.C.C. It was also felt that since the U.S. was a new market for BCC and there were new opportunities and challenges, a study should be made to find a desirable area of business such as leasing, factoring and any other area which they felt was worth studing. Once this list is compiled, C.S.O. will be invited to jointly study the feasibility of BCC going to new areas, and provide guidelines to U.S. operations to market these new opportunities.



GUIDELINES FOR THE PROPOSALS ARE AS FOLLOWS:

- Business should be within overall philosophy of BCC e.g. short term, secure, profitable (with reasonable return).
- Units should be able to fund themselves within liquidity quidelines.
- 3) Incre should be a system and/or data-processing capability within the units to handle the type of business or have the ability to acquire the capability and there must be a back up for service and follow up.
- 4) There should be technical and/or legal know how available to handle this type of business.

All units were requested to send their studies and/or recommendations to Miami, as early as possible.

IV. HUMAN RESOURCES

It was felt that as we now have an adequate pool of manpower available within the Americas, we may be able to help each other to meet emergency or short-term requirements. We may also be able to meet longer term requirements by making staff available for transfer. This, in some cases, may eliminate the need for work permits, visas and other requirements.

V. COMPUTERISATION

It was unanimously felt that our data processing capability was inadequate and unsuited to the requirements of the United States and Canada. Each unit from Canada, West Coast, New York, Latin America and the Caribbean gave a list of their problems and difficulties.



The Centre in Madison Avenue was not communicating with any unit in the U.S., nor was accountable to any unit in U.S. and was directly reporting to or receiving briefs from London.

It was agreed by consensus that this state of affairs be brought to the notice of Agha Saheb and his assistance must be sought. It was also agreed that a list of requirements of each area may be compiled and sent to the President, Mr. NaqVi, Mr. Shoaib and Systems and Operation Division for possible help.

The list of problems and difficulaties was long. They fell into the following categories:

- Software does not meet the regulatory and statuatory requirements, and substantial manual book-keeping is required.
- Some returns are prepared for submission to authorities in the case of Canada, but in other locations, no such facility was available.
- Software was not adequate for Marketing purposes, as we are unable to offer any service to our customers.
- Computer system was very inefficient and has a lot of duplication of manual/clerical input which is not cost effective.
- 5) Equipment is very unreliable; there are many breakdowns, and back up service is very poor. The technology is also very out dated. It is least befitting for a progressive and modern home like BCC to be tied to such out-dated equipment.



VI. OTHER MATTERS

It was felt that the number of reports and returns to various units in C.S.O. has grown very large, and recommendation should be made to C.S.O. for a review. It was decided that a list of returns of representative locations will be sent to London.

These locations are New York, Los Angeles, Miami and Kingston, Jamaica.

The next meeting is proposed to be held on Saturday July 20, 1985 in San Francisco.

The priting ended with a vote of thanks to the chair.

5.M. Shafi Chairman

14:----

Ä.R. Sakhia Secretary

BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM FYHIRIT



BCMIA 10

Third meeting of the Americas Coordinating Committee of Bank of Credit and Commerce International was held at New York on July 22, 1985. Following were present:

S. M. SHAFI - CHAIRMAN T. JAMIL
AIJAZ AFRIDI SHAFIQUR RAHMAN
AMJAD AWAN
FEROZ DEAN - (DIR.)
T. JAMIL
SHAFIQUR RAHMAN
ABDUR R. SAKHIA
ANIS ZUBERI

Mr. Sani Ahmad, Mr. K. Kelley, Mr. A. D. Raja, Mr. Soubole could not attend and were excused.

It was discussed that if permanent members could not attend an alternate member must attend. Meetings of this committee are going to play an important role and this committee is in the long; run will be the managing Committee of Americas.

Minutes of the last meeting were discussed. Typing errors pointed out to be corrected and minutes were adopted.

Points arising from the previous meeting were raised.

- Names of Officers handling Latin America in First American Bank to be given by Mr. Afridi to Mr. Shafi.
- All business passed on by BCC to FABNY may please be reported to Mr. Afridi.
- 3. Asif Mujtaba was named co-ordinator of business with N.B.G. Mr. M. H. Zubairi to be co-ordinator in Banco Mercantil.
- It was suggested that co-ordinators should meet soon.



- 2 -

- 5. <u>Credits</u>-Chairman pointed out that no Comprehensive proposals were received by the Secretary from various members. It was requested that proposal may please be received by 1st week of August.
- 6. Computer-Chairman confirmed that all points raised in the minutes about computarization were indeed discussed in the previous meeting. It was also decided in that meeting to receive suggestions from all units as to study what other banks were doing, what services various units would like to offer and what computer facilities will be required to provide this service. It was discussed that market is changing. Banks come out with different products everytime. We can not compete without support of the Computer Division nor can we wait. It is a dilema. We should bring this to the notice of London.

It was agreed that all units please communicate with this committee to communicate with C.S.O.

RETURNS No action has so far been taken and number of returns continues to increase. List of returns to be compiled and sent to C.S.O. to study possible duplication.



- 3 -

APPLICATION FOR GREEN CARDS

Mr. Shoaib's letter was discussed. It was felt that no hard and fast guideline could be developed, however following points must be observed.

- 1. It will not be automatic right of the staff.
- 2. Only International staff will be considered.
- 3. Cost will be borne by an officer concerned.
- Application would be considered in the 3rd year of posting in the U.S.
- It will not mean that officers services are not transferable from the U.S.
- Sponsoring such a request will not make obtaining of Work Permit difficult.
- In all cases it will be done upon recommendation of Regional General Manager.

VISIT OF PRESIDENT

Impending visit of Agha Saheb was discussed, it was agreed that List of Participants will be as per Agha Saheb's approval. It was felt that it may be suggested to Agha Saheb to include the following:

- 1. All members of all R. Mc's.
- Members of this co-odinating Committee and all alternate members.
- 3. All reference desk officers.



- 4 -

It was also suggested by members from Washington that all units contacting official agencies in Washington may inform or enclose copy to Washington Representative Office.

It was discussed that the various dealing rooms within this area may try to increase business with each other and help support each other. It was agreed to have meetings of Dealers in Americas soon.

Meeting ended with a vote of Thanks to the Chairman and to Mr. S. Rahman for hosting the meeting.

A. R. Sakhia

SECRETARY AMERICAS COMPLICATING COMMITTEE

CHAIRMAN

AMERICAS COORDINATING COMMITTEE



BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

BCMIA II

SUITE 814, 812 & 810 (Saturday, Nov. 2-Thursday, Nov. 7)

Mr. Agha Hasan Abedi & Family--BILL TO BANK

REGULAR SUITES (Saturday, Nov. 2-Thursday, Nov. 7)

Mr. Swaleh Naqvi--BILL TO BANK Mr. Kemal Shoaib--BILL TO BANK Mr. Ameer Siddiki--BILL TO BANK

10 REGULAR ROOMS (Saturday, Nov. 2-Tuesday, Nov. 5)

Mr. A.D.K. Raja Mr. Feroze Dean--BILL TO BANK Mr. Sani Ahmed Mr. Shafiqur Rehman

Mr. Louis Saubolle
Mr. Tariq Jamil
Mr. Aijaz Afridi
Mr. K.K. Elley
Dr. Serate--BILL TO BANK

Extra Room

MINUTES OF THE MEETING OF THE ROARD OF DIRECTORS OF RCCI HOLDINGS (LUXEMBOURG) S.A. HELD ON 30TH MARCH 1989 AT PARIS

resent:	Mr Y C Lamarche)
	Mr J D van Oenen)
	Dr Alfred Hartmann) Director
	Mr P C Twitchin)
	Mr Swaleh Naqvi)

In Attendance: Mr Imtiaz Ahmed Mr Abdul Hafeez

(Secretary to the Board)

- 1. On the proposal of Mr P C Twitchin, Mr Y C Lamarche took the Chair.
- Leave of absence was granted to Sheikh Khalid Salim Bin Mahfouz, Mr Ghanim Faria Al-Mazrui and Mr Agha Hasan Abedi, Directors.
- 3. Before taking up the business of the meeting and with the permission of the Chairman, Mr Clark Clifford and Mr Robert Altman, Lawyers appointed to "oversee and co-ordinate the defence strategies in respect of the indiction cases in Tampa, Florida, were invited to apprise the Board of the overall education. Mr M.A. Faruqui, Chief Advisor, Regulatory and Legal Affairs and Mr S.A. Felkhivela, Regional General Manager for United 1879 States of America were also invited to join the meeting.

PD 92467

Mr Clark Clifford explained to the Board the entire background of the cases, their present status and his evaluation of the time frame, within which the cases are likely to come up for a trial. Mr Robert Altman apprised the Board of the regulatory environment and the efforts that are being made to strengthen the procedure of compliance and reporting to the State and Federal Banking Authorities.

In respect of the Memoranda of Understanding and other orders issued by the Banking authorities in the U.S.A. and under discussion with them, Mr. Swaleh Naqvi presented the enclosed memorandum to the Board detailing the requirements of the Banking authorities and the steps being taken by the management to comply with their requirements. Mr. B.A. Palkhivala explained to the Board the steps, including the computerisation programme, that had been planned for United States operations even before October 1988 to improve the operational and backroom capabilities. Me stated that key people have been appointed to expedite completion of the arrangements.

The Chairman thanked Mr Clark Clifford and Mr Robert Altman for their exposition and advised them to keep the Board informed of the developments from time to time. The Chairman also thanked Mr M.A. Faruqui and Mr B.A. Palkhiwala for their contributions. At this stage, Mr Clark Clifford and Mr Robert Altman, Mr M.A. Faruqui and Mr B.A. Palkhiwala took leave of the meeting.

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A. HELD ON 17TH NOVEMBER 1988 AT PARIS

Present:	Mr Y C Lamarche Mr J D van Oenen	í	
	Dr Alfred Harcmann	,	Directors
	Mr P C Twitchin)	Directori
	Sheikh Khalid Salim Bin Mahfouz)	
	Mr Swelch Naqvi)	
In Attendance:	Mr Intiaz Ahmed		
	Mr Abdul Hafeez		
	(Secretary to the Board)		

- 1. On the proposal of Mr P C Twitchin, Mr Y C Lamarche took the Chair.
- Leave of absence was granted to Mr Agha Hasan Abedi, Director. Mr.
 Ghanim Faris Al-Mazrui could not participate in the deliberations of the meeting because his flight was delayed.
- Minutes of the Heeting of the Board of Directors held on 3rd October 1988, at Paris, were presented before the Board and were confirmed and signed.
- 4. The Board confirmed the fellowing Circular Resolution dated 24th October, 1988:
- WHEREAS in view of the indictment of the Bank in Florida, U.S.A. on 4550 charges related to the alleged receipt of funds, alleged to be proceeds
 - FD 02596

- 7. The Board was informed that the following 2 officers of the Bank have been indicted in Tampa State of Florida for allegations of laundering drug related funds:
 - 1. Mr. Iqbal Ashraf
 - 2. Mr. A. M. Baakza

It is a customary practice and in accordance with Florida statutes that corporations indemnify their officers for the legal fees and expenses that they incur in defending themselves in the Court of Law.

Z048 Each officer has to provide an undertaking to the Board to the effect that the Board of Directors will have complete discretion to stop any payments in case it is determined by the Board of Directors that the

Po 02559

officer is not entitled to be indemnified by the Bank and that on such a determination the officer undertakes to repay the amount paid by the Bank.

A letter is to be addressed by the Bank to the lawyers of each officer, that the Bank has agreed to the officers request to pay such advances of reasonable fee and expenses; that the decision was made in persuance to the customary practice and the relevant indemnification laws of the State of Florida and that the Bank will pay the legal fee and expenses upon receipt of the undertaking referred to in the previous para.

In view of the urgency of requirement and in anticipation of Board approval such letters have been issued duly signed singly by Mr. Basheer Chowdry, General Manager.

The Board was requested to kindly confirm and ratify the action.

The Board after due examination ratified the action for the issuance of letters of indemnification on the execution of the undertaking, the drafts of both are attached here.

8. As a consequence to the issuance of letter as indicated in the previous paragraph, it is now required that an account be established with First American Bank, New York, so that the amounts may be paid to this account and disbursed there from. The disbursement will be made under the authority of two lawyers Mr. John F. Kovin and Mr. J. Offifin Lesher, who have to be authorised in this behalf. To comply with the requirement of opening the account the Board was requested to adopt the prescribed Resolution. The Board adopted the following Resolution unanimously:

'RESOLVED, that First American Bank, N.A. is hereby designated the depository for funds of this business and is authorised and directed to pay all cheques and any other order for payment of money, including instruments drawn on interest-earning accounts, in the name of this business when signed by both the following individuals:

1961

FD 925"0

- 6 -

S.A. 17.11.88

Name

Title

Mr. John F. Kovin Mr. J. Griffin Lesher Attorney at Law Attorney at Law

It is further resolved that First American Bank N.A. is authorised to honour, receive, certify, or pay all instruments, including those drawn on interest-earning accounts, signed in accordance with this resolution even though drawn or endorsed to the order of any authorised signer whether drawn to the bearer, cash, or to the order of any other authorised signer, or in payment of an authorised signer's individual obligation, or for deposit to his personal account.

The Bank is not obliged to enquire about the circumstances of the issuance or use of any instrument signed in accordance with this resolution, or the application or disposition of such instruments or its proceeds.

Whenever any of the authorised signers shall change, such changes shall be certified in writing to the Bank immediately, and the Bank shall be fully protected in relying on such certifications and shall be indemnified and held harmless against any claims from demands, expenses, loss or damage resulting from honouring the signature of any certified signer, or refusing to honour any signature not certified.

This resolution shall remain in effect until written notice of its amendment or cancellation is received by the Bank.'

MONEY LAUNDERING ALEXA

NOTE SHEET, NUMBER 1

clusts to some

More than 30% of New York cash forms are phony

COPPRENT 1991 ALEXT INTERNATIONAL INC.

A New York City jeweler, indicted last month on charges of laundering more than \$30 million in drug money, has unwitzingly exposed a major flaw in the government's money laundering effort.

It raises serious questions about the efficacy of the cash reporting system which Congress has constructed over the past 21 wasn.

It also puts in serious doubt the adequacy of enforcement of the laws by the Treasury Department and Internal Revenue Service.

Luis Roges is a wholesale jeweler who owns Dear Enterprises. The government alleges that in a 39-month period he deposited more than \$95 million in cash in accounts he held at three banks in New York:
Banco Popular, Benco de Ponce and Republic National Bank. Most of the deposits consisted of pen and twenty dollar bills.

Roges was well aware of the law that requires trades and businesses to report cash receipts of more than \$10,000 on IRS Form 8300.

He filed them at the rate of more than 43 per month during the 39 months that came under recent government scrutiny, for a total of 1,685 Forms 8300. They were logged in at the IRS Computing Center in Detroit from January 1987 through March 1990.

The government now says that "the vast majority" of them were false. Roges is alleged to have used the names of existing customers on his Forms 8300 to report they had paid him the staggering sums of cash receipts he was reporting.

In interviews of those customers by government agents they denied and proved that they had never given Roges the cash he reported they paid.

The government's indicament cites only 663 instances of false Forms 8300 (Case No. 91 Cr. 612, So. Dis. N.Y.).

Informed sources say, however, that they have not found any truthful ones among the 1,685 he filed. Further charges may

involve all of them.

From the entire IRS Manhattan district during the years 1987, 1988 and 1989, a total of 4,498 Forms 8300 were filed, according to the IRS Computing Center. An additional 1,466 were filed in all of 1990. (The Center was not able to provide the number filed from the Manhattan district in the first quarter of 1990).

If one assumes conservatively that half of the 1990 filings, or 733, were submitted from January through March of that year, there were a total of 5,231 Forms 8300 filed from that district from January 1987 through March 1990.

That means that Roges fed the government 32.2% of all Forms 8300 filed by Manhattan trades and businesses during those 39 months.

In the entire nation, according to the IRS Computing Center, there were only 63,682 Forms 8300 filed from January 1987 through March 1990.

Continued on Page 3

IN THIS ISSU

IRS, DEA had knowledge of BCCI in 1985

3

Arizona breaks ground again

4 Largest Cadillac

dealer raided

U.K. guides insurers

Aggregation rule imminent

8

Clifford firm paid BCCI defense

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From its account at Pirst American Bank in Washington, D.C., the law firm of Clark M. Clifford, from 1988 to 1990, served as the paymaster in the Tamps money laundering prosecution of BOCI and eight of its employees.

The firm paid the legal fees of all defendants in the case and all BCCI employees who were called as witnesses. The law firm also paid the fees of the accounting firm of Price Watershouse, a number of private investigators, and others who were recruited with the firm's blessing to provide services in the Tampa case.

The firm's checks bore the legend "BCCI Legal Fund."

The law firm, Clifford and Warnke, continued as bursar for the defense long after its clients, BOCI S.A. and BOCI (Overseas) Ltd., pleaded guilty to numerous money laundering charges in the Tunipu federal district court.

The Clifford firm's influence in the money laundering case, which was the first time BOCI had ever faced criminal charges anywhere, went beyond the payment of fine.

Even after the guilty plea by the BCCI Consinued on Page 6

Bank, lawyers learn painful lesson in forfeiture case

In March 1990, a federal district court gave an expensive lesson to banks on how cozy relationships with known criminals can cost them the forfeiture of mortgages.

That ruling cost Republic National Bank of Miami an \$800,000 mortgage loan it had given to a known drug trafficker Indalecio Iglesias on his mansion in a posh South Florida neighborhood.

Now the 11th Circuit Court of Appeals has given the bank and its lawyers another painful lesson on the procedures that must be followed in drug and money laundering

After Iglesias' arrest, the government seized his estate and began forfeiture proceedings. The bank filed a claim for the

MONEY LAUNDERING ALERT*

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value of its mortgage asserting that it was an "innocent owner."

District Judge Thomas E. Scott found that "every fact in the record points irrefutably to Republic's knowing involvement" in a money laundering scheme of Iglesias. He ruled that Republic's mortgage could be forfeited to the government (Money Launder Alert, March 1990).

Republic's accomeys filed an appeal in time, but neglected to file a motion to may execution of the judgment or to post a "supersedeas" bond.

The government sold the property with the knowledge of the bank pursuant to an-"order of interlocutory sale." It placed the proceeds, the substituted property, in the U.S. Marshal's account.

The Marshal's Office waited 35 days after the final judgment of forfeiture and executed on the judgment. It transferred the sale proceeds to the Asset Forfeiture Account of the U.S. Treasury Department.

In a decision that will cause sleepless nights to those involved, the 11th Circuit has ruled that once the Murshal transferred the sale proceeds from his custody to the Treasury's Account no property remained in the jurisdiction of the district court.

The court was thus stripped of jurisdiction since a forfeiture proceeding is directed at the property.

The only basis for jurisdiction in this case is that the defendant property was located and arrested in this district," said the appellate court.

"The final judgment of forfeiture ordered the (government) to dispose of the proceeds according to law. Republic had the option to move for a stay of execution or post a...bond to stay the release of the substituted (property). It did neither. . This appeal is dismissed for want of jurisdiction," ruled the court (U.S. v. Residence at 6960 Miraflores Ave., 932 F.2d 1433, 11th Cir. Ct. of App., June 10, 1991).

The bank's lawyer, Robert Sondak, of the Miami law firm Paul, Landy, Betley and Harper, said: "The ruling is unfair and contrary to the law of other circuits."

Cash in bank boxes not laundering

Christopher Bell was your typical small time crack dealer on the streets of Milwaukee. He ran several crack houses and employed children to sell his drugs. He was arrested for drug dealing and charged with three money laundering counts as well (Title 18, USC Sec. 1956).

They were based on Bell's placing drug proceeds in two safe deposit boxes and transferring the funds between the boxes he rented at a branch of the First Wisconsin National Bank.

A bank employee restified to seeing Bell on five occasions. Bell was always adding, removing, or transferring cash between his two deposit boxes, said the employee.

On one occasion he brought in a plastic bag filled with \$100 bills. The IRS searched one box and discovered \$5,000.

At trial, Bell said the use of safe deposit boxes is not the laundering of monetary instruments as required by the federal law.

A bank manager testified that safe deses are storage facilities, that the bank does not regard their use as a transaction, such as activity in bank accounts, and that no records are kept on safe deposit box activity.

Bell was convicted on the three money laundering counts.

The appellace court agreed with Bell. "Congress' use of specific financial terms that involve the placing of money into a bank's possession reveals its intent to limit the meaning of 'transaction' to only those activities where the bank actually retains control over a customer's funds," the court concluded.

"The defendant's use of safe deposit boxes at the (bank) does not fall within the scope of 'transaction' as set forth in Sec. 1956(c)(3) because his use of the boxes cannot be considered a 'transfer between accounts, an exchange of currency, a loan, an extension of credit, a purchase or sale of any stock, bond, certificate of deposit, or other monetary instrument . . . " it ruled.

The Seventh Circuit Court of Appeals also concluded that the use of safe deposit boxes does not constitute a payment, transfer, or delivery.

The court reversed the drug dealer's laundering conviction. The decision sheds light on the judicial meaning of the money laundering law (U.S. v. Bell, Docket No. 90-1284, 7th Cir. Ct. App., July 10, 1991).

False cash form filings put U.S. effort in doubt

Continued from Page 1

That means Roges supplied about 2.6% of all the Forms 8300 which were filed throughout the nation in that period. And the "vast majority," if not all of them, were

The IRS Computing Center performs no examination of the forms other than to ec if they are missing certain information. Once received by the Center, the data from the forms is transmitted to the Financial Crimes Enforcement Network.

The government now has a major problem on its hands: How many of the Forms 8300 it receives are not worth the paper they are written on? Congress will want to find out.

FinCEN is a Treasury Department agency created in April 1990 to collect and analyze financial data for use by federal law enforcement agencies.

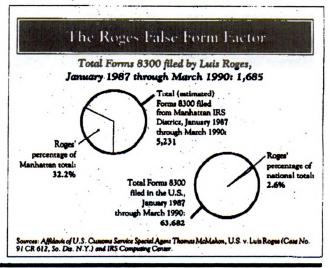
Neither agency knows how many false cash reporting forms are filed, including Form 4789 which is filed by banks. There were more than 7.3 million Forms 4789 filed in 1990.

IRS Computing Center spokeswoman Elcy Maccani said "there certainly are other cases of false Form 8300 filings."

"There is no reason to believe that this type of fraudulent filing is widespread. This case is indicative of the value of the data base as an investigative tool," she added.

Brian M. Bruh, director of FinCen, said: "I don't know enough about the case to comment."

Thanks to Luis Roges, the government now has a major problem on its hands: How many of the Forms 8300 that it receives are not worth the paper they are written on? Congress will want to find out.



DEA, IRS knew in 1985 of BCCI money laundering

A major Iranian heroin trafficker, who did not realize he was dealing with a federal undercover agent, gave evidence to the U.S. Internal Revenue Service and Drug Enforcement Administration in August 1985 of the drug money laundering facilities available at the Bank of Credit and Commerce International.

An unpublished 1986 opinion of a Los Angeles federal district court documents the unwitting assistance the drug dealer gave the U.S. government.

The court ruling came in a civil case in which the trafficker, Sattar Nadjmehchi. challenged an IRS "jeopardy ass and liens of \$9.5 million which it had filed following an international undercover DEA investigation.

Nadjmehchi's drug trafficking was well known to the U.S. government for about two decades. He had been arrested in Iran in 1963 and 1967 and charged in connection with the seizure of nearly 5,000 kilograms of opium.

In 1979, he was arrested in connection with the seizure of 3,000 kilograms of hashish in Holland and Switzerland.

In October 1985, he was arrested by Austrian authorities for his attempted delivery of 50 kilograms of heroin to an undercover DEA agent.

After that arrest, a DEA search of his Los Angeles office revealed records for more than 70 bank accounts in the U.S. and other countries.

Many of the accounts were held in the names of Nadjmehchi's nominees or shell companies which he used to launder his drug proceeds.

Nadjmehchi's banking connections included BCCI officials. He introduced them to the agent and gave the government a very early view of BCCI's drug money laundering activities.

The meeting came to light in an IRS affidavit filed in the Los Angeles case and cited by the court

The IRS said that "in August 1985, Nadjmehchi arranged a meeting between (DEA) Special Agent Sugimoto and Mr. M. Radiaton of the Los Angeles office of the Bank of Credit and Commerce International, a Luxembourg bank. Radjaion explained to Special Agent Sugimoto how he could conceal and launder accounts at a foreign bank" (Case No. CV 86-5893-CBM, Cen. Dis Cal., Oct. 20, 1986).

At the time of that meeting, money laundering had not yet been made a federal offense, but the Bank Secrecy Act, which was enacted in 1970, required banks to report large currency transactions

It is not known what investigation of BCCI was initiated by any agency of the government as a result of that encounter.

AUGUST 1991 / MONEY LAUNDERING ALERT / 3

REGULATORY ACTION

Arizona tightens grip on transmitters, laundering

Arizona was the first state to enact a money laundering law. Its 1985 statute even predates the 1986 federal law.

There was ample justification. Estimates say up to four billion dollars in drug proceeds flow through the state each year. The border it shares with Mexico aggravates the problems.

Recently, Arizona amended its laws and may once again have set an example for other states. The new law:

- ► regulates money transmitters
- ▶ requires comprehensive financial transaction reports to be filled with the state Autorney General
- expands the basic money laundering offense and creates two new crimes which can also serve as predicates in civil racketcering suits.

The law requires transmitters to report to the Attorney General any suspicious activity or business conducted by a customer that may be relevant to a possible money laundering violation."

It protects consumers from loss in the event of the failure of a money transmitter to whom they have entrusted money.

Moncy transmitters and their agents must now meet not only the licensing stundards, which take effect November 1, but also conform to the various federal cash reporting laws. The law adopts federal requirements so that businesses need not use new forms, with the exception of a supplicious transaction report which the state is devising.

Compliance by a business with federal law is deemed to be compliance with state law. Duplicate reports do not have to be sent unless the federal government does make the reports available to the state, such as IRS Form 8300. That form requires businesses to report cash receipts of more than \$10,000 in related transactions.

The Arisona money laundering law isow also has two new subsections and some new definitions. One subsection criminalizes facilitation of racketsering by supplying property knowing it is intended for use to facilitate racketsering.

Theother criminalises conducting transsctions with knowledge of some criminal origin of the property, and with the intent to conceal or to avoid a transaction reporting requirement under the new law.

Regulation of money transmitters is new

to Arizona. The law's major effects on them are threefold:

- ➤ regulation will prevent entry into the business by unsuitable corporations. Applicants without suitable "financial condition and responsibility, financial and business experience, character and general fitness" need not apply
- licenses may be suspended or revoked for general competence, experience and integrity reasons, or for insolvency. The banking superintendent has broad discretion to remove licenses
- Itemses may be revoked for not complying with the various money laundering laws and reporting requirements. The conduct of an agent may result in the loss of a license. That occurs if the agent violates

the Arisons organised crime law, including money laundering or money transmitter regulations, by "a course of negligent failuse to supervise or...the willful misconduct of the licensee."

The Arisona Attorney General has formed an implementation committee, including members of the private sector, that will create the forms, establish ways to assure smooth implementation, and provide a forum for operational changes. The bulk of the law takes effect September 20, 1991 (Az. Rev. Stat., Secs. 6-1241 and 13-2317).

-Cameron II. Holmes is Assistant Astorney General and chief of the Financial Remedies Unit of the Arizona Office of the Astorney General.

Charlotte joins Fed surplus list

The Charlotte Federal Reserve district has joined the cities reporting currency surpluses to the Federal Reserve Board. In the 1991 midyear listing of Fed districts with cash surpluses, the North Carolina city joined 15 others in reporting an excess of cash received by area bunks in their normal operations.

Three of them are in Texas: Houston, San Antonio and El Paso. Two each are in California and Florida. The cities in those states are among the laundering hotspots in the nation.

Cash surpluses show banks in an area are receiving more in cash than they need for normal business. Banks turn the excess cash over to the Fed for credit on their accounts.

The Fed's surplus figures are an indicator of money laundering activity, but not foolproof. It is one factor used in the assignment of federal agents around the U.S.

Charlotte's new membership on the list may reflect an increase in money laundering in the Tar Heel state, which is the nation's 10th largest.

Earlier this year, a 45-person drug and money laundering ring was expused in Charlotte. It involved drug dealers, real estate brokers and boat dealers.

That case had the distinction of producing the first conviction of a real estate agent (Money Laundering Alert, May 1991).

Minmi still tops all cities with a surplus of abour \$3.4 billion. It has consistently led

the list in past years. Los Angeles placed second with a midyear surplus of almost \$2.4 billion.

Nearly all of the surplus cities are on the nation's border or coast.

Some of the surpluses are due to flight capital. In some cases, seasonal tourist activity, or amusement parks, account for some of the surpluses.

Federal Reserve Districts with midyear 1991 cash surpluses

	Surplus
District	(in thousands)
Miami .	\$3,359,081
Los Angeles	2,383,093
Jacksonville	1,688,026
San Antonio	1,107,526
Philadelphia	496,996
Houston	327,704
El Paso	281,734
Denver	242,605
Nashville	160,569
Charlotte .	136,025
New Orleans	101,073
Sen Francisco	58,189
Salt Lake City	20,933
Helena :	18,493
Little Rock	11,070
Portland	6,462

BCCI's "suspicious transactions" escaped Treasury

The Treasury Department warns banks that they must report suspicious transactions. Pailure to do so, it says, might be construed as "willful blindness

Courts have held that if one employee of a bank knows of the existence of money laundering the entire institution is deemed to know under the doctrine of "collective knowledge."

The BOCI case is proving that the government should be saying: "Do as I say, not as I do."

One government office that is critical in the national effort against money laundering, but which has not received attention in the BCCI scandal, is Treasury's Office of Pinancial Enforcement.

The OFE is the nerve center of the government's effort to prevent money laundering by banks. It is directed by Tressury's Assistant Secretary for Enforcement. Peter K. Nunez was named to that post in March 1990 after serving as a federal prosecutor in San Diego for 11 years.

As Treasury's enforcement chief, Nunes has great power to direct federal resources in the money bundering effort. The IRS and the Customs Service, two lead agencies in the effort, answer to him.

So does the Financial Crimes Enforceent Network. PinCEN was created last year to gather and analyse financial information from various sources, including the cash reporting forms filed by banks and

The OFE temponable for assuring co ience by financial institutions with the Bank Secrecy Act and its regulations. That law, enacted in 1970 and amended several times since, is the main money laundering weapon which Treasury can wield against ncial institutions (Title 31, USC Sec. Š311*-5*326).

On some 50 occasions, nearly 90% of them before 1989, Treasury has imposed civil penalties on financial institutions for violations, some in the millions of dollars.

The OFE routinely receives reports from banking regulators, including the Federal Reserve Board, about suspected bank violations of the BSA.

The BSA requires banks to report cash ensections of more than \$10,000 on IRS Form 4789. It also prohibits the structuring of cash transactions to avoid the filing of the form.

The Act gives Treasury broad powers to gather evidence from banks about their compliance. It can issue summonses, seek injunctions, and compel the attendance of bankers "to appear before the Secretary of the Treasury... and to produce such books, papers, records, or other data, and to give testimony, under oath, as may be relevant. . .to an investigation. . ." (Title 31, USC Sec. 5318).

BCCI has never been penalized nor been the subject of any administrative action by Treasury. It is not known what referrals Treasury received from the Federal Reserve Board whose quaminers were often on the premises of BCC1.

Among the little-known "suspicious sections" of BCCI which were known to the government lo

agust 1985, a DBA agent had a e-to-face engageter with a BCCI official who offered to leunder drug proceeds (See Story, Page 3).

▶ In March 1988, before the unrelated Tampa BCCI sting was exposed, Eduardo Mertinez R., a principal money launderer for the Medellin Carrel, was overheard in a taped convenation in Aruba with government undercover agents and an informent. He was looking for ways to improve the efficiency of his money laundering operation. The agence, in a sting called Operation Polar Cap, offered to help. The relevant portion of the conversation which was in Spanish:

Martines: "We could do it through Panama."

Informant: "Oksy, perfect."

Martinez: "So, I think the bank's name . .I don't remember if it's the BCC. .

Informant: "Oh, yes, the BCC, the BCC, yes, Benk of. . ., yes

Martinez (in English): "...of Credit and Commerce" (Affidavit of DEA Special Agent David C. Panek, U.S. v. Pablo E. Escobaret al., Page 11, Case No. 89-086-A, No. Dis. Ca.).

► The Polar Cap cases revealed a multitude of wire transfers of drug proceeds which had been sent by BCCI's New York office to the late 1980s.

► In April 1990, the Justice Department obtained court orders freezing about 754 bank accounts throughout the nation allegedly containing drug proceeds which it had record in Polar Cap. Some of the sccounts were in the New York and Florida officerof BCCL

The ongoing investigations of the BCCI affair may reveal what Treasury did with all that information,

IRS raids nation's largest Cadillac dealer in Detroit

The continuing effort of the IRS to rret out money laundering in automobile dealerships has hit the nation's largest Cadillac dealer and one of the best known.

In late May about 25 IRS agents raided Don Miney Cadillac in Detroit, armed with search warrants. They combed through Ale cabinets, deaks and computer disks for several hours as the agency's 230 employs worked nearby.

The agents took many records which are believed to focus on large cash transactions. On June 🚜, the IRS setumed to Massey Cadillac armed with another seasch warrant. They bulked for records which might show the structuring of cash deals to avoid the filling of the required cash re-ceipts report, IRS Form 8300. No charges have yet been filed.

In an incorview with the Decrois Nove published July 15, 1990, Massey was dicted saying: "It's not my job to be a police officer. You can't expect me to incerro a customer who comes in here. I wouldn't do that because I don't consider it any of my concern where a gliy gots his wealth."

About two doesn car dealers have b

en cer desiers have been indified around the country for money laundering. Doserts more have the subjects of IRS "Form 8300 Sweeps" which are unannounced audits seeking to determine if a dealership has complied with the federal cash repositing law.

Errata

In our July article, "Rules modify BSA definition of financial institution," ar the 6, we said that commodities broken and dealers report cash transactions of more than \$10,000 on IRS Form 4789. They must report them on IRS Form 8300.

Clifford firm paymaster role allowed 'damage control' deferme tream. The payments reached the the parent of Park American Bankshares,

Continued from Page 1 entities, the firm's lawyers were kept informed of discussions at periodic meetings, usually attended by more than 20 lawyers, accountants, investigators and others, devoted to coordinating defense strate and to "damage control," as one insider puts it.

The Clifford firm was kept closely informed of the course of the proceedings, and of the evidence produced at trial, by the attorneys it had hand-picked to monttor the case and to represent BOCI's emplayees who were defendants and witness

The guilty pleas by the BOCI corporate entities resulted in a \$15 million "forfeiture" penalty to which the government consented. The plea agreement was roundly criticised at the time as being too lenient on the bank.

The BCCI guilty pleas also removed the opportunity for government prosecutors, at trial and in the open, to probe the corporate relationships of BOCI such as its then-secret control of Pirst American Bank.

Clifford and his law partner and protege, Robert A. Altman, are stockholders of Pirst American Bank and sat on its board of directors until they resigned this month.

Altman was at the apex of the ream he selected to supervise the coordinated Tampa

Within the Clifford firm, John Kovin, an attorney, reviewed and approved the multitude of detailed bills that came from the many persons hired to serve on the defense team. The payments reached the millions of dollars.

Altman's field general was Washington stromey and former federal prosecutor, Lawrence H. Wechsler, who, in turn, had two former federal prosecutors, E. Lawrence Barcella and Raymond Banoun, as his principal lieutenants. All three practice law independently.

Below them, a number of independent Washington and Florida lawyers, all of them paid by the Clifford firm, performed the day-to-day services of representing the BCCI employees.

No BCCI employee, including those who were charged with crimes, was dismissed by BCCI even though those who were charged with crimes had been in prison since October 1988. The accused BCCI employees were convicted by a jury in July 1990 after which they were dismissed.

At the time of the Tampa case it was not yet known that Clifford and Altman may have misled the Federal Reserve Board about the hidden BOCI interest in the offshore company which controls Piret American Bank.

The role that Clifford and Altman played in BCCI's fraudulent acquisition of an Interest in Pirst American Bank is under investigation by the Federal Reserve Board and New York County District Attorney Robert M. Morganthau.

Clifford and Altman are stockholders of Credit and Commerce American Holdings N.V. (CCAH). That offshore company is

Inc., which owns First American Bank

in announcing a \$200 million civil enalty against BOCI last month, the Federal Reserve Board said that in 1981 Clifford and Altman represented a number of investors who were seeking to acquire an interest in CCAH. The investors said they ere doing so with their own money. At the time, there were suspicions that BOCI money was illegally financing the acquisition of the company.

At a hearing before Federal Reserve and other banking regulators in April 1961, Altman said "there is no connection between (CCAH) and BCCI in terms of ownership or other relationship.

Clifford told the regulators that "there is no function of any kind on the part of BCCI....I know of no present relationship. I know of no planned future relationship that exists" (Notice of Penalty, Federal Reserve Docket No. 91-043, Page 25).

The Federal Reserve ruled last month that there had been "secret arrangements. between senior officials of BOCI and customers of BCCI* which permitted the purchase of shares of OCAH. That enabled BOCI to control Pirst American Bank.

Clifford has denied any knowledge of BCCI's role in the stock purchase. So has

The Federal Reserve also announced it month that it has made criminal referrals to the U.S. Justice Department concerning the CCAH stock purchase affair.

aundering charged in massive insurance scam

The Smushkevich brothers came from Russia secking the American dream. The two found the good life in a one billion dullar insurance scara they perpetrated with the help of cohorts from Argentine, lered and Yugoslavia.

A 175-count indicument by a Los Angees federal grand jury was the culmination of a five year investigation by several agencies led by the U.S. Postal Service and the Internal Revenue Service. It charged 12 s with a variety of crimes and contained 76 money laundering counts.

The scheme was this: through a talesarketing operation set up by the mushkeviches the public was invited to visit one of the brothers' shem clinics or mobile labs for free physical examinations.

When the customers arrived the schem-

instructed them to authorise payment by their insurance carrier directly to one of the phony clinics.

From the extensive medical history th customers were required to provide, the schemers could then justify claims for insurunce payments for examinations and

Doctors working in the clinics and mobile labs were instructed to make certain diagnoses which most likely would be id by the insurers.

Medical histories were routinely fabricated to improve the chance of payment. The Smushkeviches did when

Cossety to extract payment.

The scheme even touched the insurence program which covers military de-, pendents and resirces. That program alone

received fraudulent claims totalling about \$29 million and paid more than one millio

Of the one billion dollars in false claims the Smushkeviches submitted, they succeeded in getting over \$50 million in paynm. The brothers established numerous shell corporations and used bunk accounts in California, Mexico, Luxembourg and elsewhere to transfer money between ac-

Under the money laundering forfeiture law, the government is sauking to forfeit real property and accounts in several banks in California, Lusambourg and Mexico (Title 18, USC Sec. 982(b).

The wives of the brothers and eight others were also charged. No trial date has n set (Case No. 90-960(D), Can. Dis. Cal.):

6/MONEY LAUNDERING ALERT/AUGUST 1991

U.K. puts insurers under money laundering alert Advice warns of laundering vehicles in 'single premium investments'

The insurance industry is the unmentioned player in the money laundering field. It is not mentioned much as a source of problems in that area of world concern. No major case has yet surfaced implicating an insurance company or broker in a money laundering scheme.

That possibility, however, is on the minds of some regulators and legislators. In the U.S., insurance companies are considered "financial institution" under the Bank Secreey Act. In Australia they are included among the "cash dealers" who are subject to that country's cash reporting law. Neither makes any distinction between life and property and casualty insurance companies.

Now Great Britain has stepped forward to put out warning signals about money laundering abuses which could occur in the insurance industry.

Under the auspices of the Joint Money Laundering Working Group, chaired by the Bank of England, a 19-page set of "Guidance Notes" have been directed to the British Industry.

As it did last December when it issued Quidance Notes to banks and building societies, the Working Group provided guidance to the insurance industry on what constitutes "suspicious transactions" in an insurance setting (Money Laundering Alen, January 1991).

No such guidance is provided by the U.S. Treasury Department to the insurance industry or any other sector.

The new Guidance Notes come equipped with a suspicious transaction reporting form and a sample "feedback report." That is what the National Drug intelligence Unit of New Scotland Yard sends to industry reporters of suspicious transactions.

The new advisory to insurance companies explains the three stages of money laundering:

- ► Placement the physical disposal of cash derived from criminal activity
- Layering the separation of illicit proceeds from their source by layers of financial transactions which seek to obfuscare.

 Integration - the supplying of apparent legitimacy to illicit wealth by the re-entry into the economy by what appear to be

normal business funds

The Guidance Notes state their rationale by citing several examples of "single premium investments" that "are particularly attractive as a vehicle for laundering money. They are:

- investment bonds
- purchased annuities
- ➤ lump sum "top-ups" to an existing life contract
- ▶ lump sum contributions to "personal pensions contracts."

The Notes inform the insurance industry of the statutes and regulations which bear on the money laundering problem, including the recently-approved European Community Directive on Money Laundering, which takes effect January 1, 1993.

The Notes make no distinction between insurance companies, brokers or "independent financial advisers."

Insurers are told to institute "know your customer" procedures and maintain the records required under the Financial Services Acc.

It may soon come to pass that the insurance industry is also found to be afflicted with the money laundering problem.

They are also told to cooperate with law enforcement authorities and to designate "a single reference point" for the receipt of suspected laundering transactions. Staffs should be trained on legal requirements and internal controls, say the Notes.

Larger insurance concerns are advised to write procedural manuals and keep close watch of their overseas operations to assure they do not become involved in money laundering.

Tight customer identification and recordkeeping procedures are detailed by the Notes.

Among the situations cited which should raise suspicions:

- Occasional or "execution only" business as to which the insurer should "provide an audit trail for suspicious funds"
- ► Activity which is "inconsistent with a

customer's known, legitimate business...or with the normal business for that type of policy holder"

Early "encashments of single premium policies," especially those for the benefit of a third party

Insurance firms are told to report their suspicions to the NDIU which may or may not give permission to continue a relationship with a client. The Notes assure the insurers that their confidentiality will be protected even if their records are needed in court.

The Notes provide insurers with these examples of suspicious transactions which may involve money laundering in single premium contracts, offshore international activity, and among employees and agents:

- ➤ Where the source of funds is unclear or inconsistent with the customer's "apparent standing"
- ➤ A sudden request by a customer for a large purchase of a lump sum contract where his experience is small, regular payment contracts
- ► A proposed purchase with a third party check
- ► A customer who shows no concern for the performance of his investment but much concern for the early cancellation of the contract
- ► A customer who wishes to make a lump sum payment by a wire transfer or with foreign currency
- ➤ Employees who suddenly show a lavish lifestyle or do not take holidays
- ➤ Sales people who show an unexpected increase in sales
- ► A high level of single premium business exceeding "any average company expectation"
- ▶ Use of the salesperson's address for the "despatch of customer documentation."

The insurance industry is under great scrutiny throughout the world because of the condition of its finances.

The number of company failures has begun to alarm regulators who fear a repetition of the calamity that befell the banking industry.

It may soon come to pass that the insurance industry is also found to be afflicted with the money laundering problem. Thus far, it has been virtually underected. 17:58

ON THE AGENDA

Treasury aggregation, magnetic filing rules imminent Panama ratifies money laundering treaty; Treasury ducks court battle

Here are some important developments:

Treasury regulations on aggregation, magnetic filing imminent; wire transfer rules still under review

➤ Two regulations that will directly impact about 15,000 financial institutions, which the Treasury Department proposed in final form. One regulation will require certain financial institutions, including currency dealers, check cashers and money transmitters, to aggregate currency transactions of more than \$10,000 on a daily basis if they are "by or on behalf" of an accountholder or customer. The other will require financial institutions which file more than 1,000 currency transaction reports (IRS Form 4789) per year to do so by magnetic media.

The rules evoked controversy when Treasury proposed them last September because they would require aggregation by traditional financial institutions with deposits of more than \$100 million, but make no distinction in the size of non-bank institutions, such as money transmitters and currency exchange houses, which would have to aggregate. The smaller firms argue that such a distinction puts them at a competitive disadvantage. Treasury was also criticised for concluding that the regulations would not have an economic impact of more than \$100 million. Many industry groups said the compliance costs would far exceed that (Money Laundering Alert, October 1990 and January 1991).

Panama legislature ratifies mutual assistance and money laundering agreement with U.S.

➤ After rancorous debate, including charges that the wellbeing of its banking center was being undermined, Panama's legislature on July 15, by a vote of 39 to 10, ratified the recently-signed mutual legislature treaty with the U.S. The agreement is the second one signed by the U.S. containing provisions for the exchange of "currency transaction information" which must be kept by each nation's financial institutions. The other one was signed with Venezuela.

The Panama treaty still requires ratifi-

cation by the U.S. Senate. One potential stumbling block: the clauses dealing with the exchange of currency transaction information are not part of the body of the treaty but are found in an annex to which the signed part of the treaty does not refer. One U.S. Justice Department source familiar with the negotiations said that was a "diplomatic concession" to the Panamanians (Money Laundering Alert, December 1990 and June 1991).

Treasury avoids court review of targeting order extension in Houston

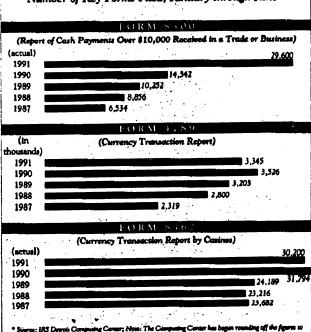
➤ In March, the Treasury Department issued a geographic targeting order directed at more than 20 money transmitters in the Houston area. It was the second such direc-

et handrad. Prior res

tive since the procedure was authorized by a 1988 amendment to the Bank Secrecy Act (Title 31, USC Sec. 5326). The transmitters took Treasury to court challenging the constitutionality of the law. They also said they were victims of discrimination because they were all Hispanic businesses.

The federal judge refused to enjoin enforcement of the order but required Treasury to seek court approval if it wished to extend it beyond the initial 60-day period. The law gives Treasury the untlateral right to do so. Treasury decided to avoid a confrontation and let the order lapse thus leaving unexplored the transmitters' allegations. The case received more publicity than is desired by the government in targeting situations.

Midyear Money Laundering Guideposts Number of Key Forms Filed, January through June*



8/MONEY LAUNDERING ALERT/AUGUST 1991

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PRESS RELEASE

For Release A.M. Wednesday, August 21, 1991

Contact: Charles A. Intringo (305)530-1652 Fax: (305)530-9434

MORE THAN 30% OF NEW YORK CASH REPORTING FORMS ARE PHONY, Money Laundering Alert Reveals

In a copyrighted story in its August edition, *Money Laundering Alert* reports that more than 30% of the federal cash reporting forms filed by Manhattan businesses in a 39-month period through March 1990 were false.

They were filed by just one business which clogged the IRS database with information on which key federal enforcement decisions are made.

That is nearly three percent of all cash reporting forms filed by trades and businesses throughout the nation from January 1967 through March 1990.

From the entire Manhattan IRS district in that period, an estimated 5,231 Forms 8300 were filled by business. There were 63,682 filed nationwide.

All of the phony forms came from one mid-Manhattan jeweler who was indicted late last month for having laundered more than \$30 million in drug proceeds. The jeweler, Luis Roges, is alleged to have deposited more than \$36 million in small bills in three New York City banks in three years.

He was aware of the cash reporting law and submitted 1,685 phony Forms 8300 to the IRS. His scheme involved putting the names of legitimate customers on the forms and reporting they had paid staggering sums to his wholesale jewelry business. Form 8300 is required to be filed by businesses when they receive more than \$10,000 in cash in their business transactions.

Money Laundering Alert says the Roges case reveals "a major flaw in the government's money laundering effort. It raises serious questions about efficacy of the cash reporting system which Congress has constructed over the past 21 years."

"it also puts in serious question the adequacy of enforcement of the laws by the Treasury Department and the IRS," says *Money Laundering Alert*. The centerpiece of the government's effort against money laundering are the mandatory cash reporting forms.

No one knows how many phony cash reporting forms, including Form 4789 which is filed by banks, are submitted to the government. Last year, there were more than 7.3 million Forms 4789 filed throughout the nation.

"The government now has a major problem on its hands: How many of the Forms 8300 it receives are not worth the paper they are written on? Congress will want to find out," *Money Laundering Alert* concludes.

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NOTE TO THE PRESIDENT

Mr. Clifford and Mr. Altman telephoned on 28th August to inform that they propose to nominate the following gentlemen as a director on the Board of First American Bank of New York:

MR. ROBERT PURSLEY

Partner - J.H. Witney & Company An investment banking firm specialising in venture capital investment.

Mr RAY Witney 50 (This firm was established by Mr years ago).

Before becoming a part of the Without Company, he was an executive Vice President on Philiperco

Mr. Clifford has long relationship with him and assured of his complete loyalty.



I indicated to him that if Mr. Clifford's judgement is that he would be suitable for the proposed position, Mr. Abedi should not have any reservations. To save time I suggested that he may proceed to finalise the arrangements.



m. clim

In respect of the management organistion for 33 branches of Bankers Trust, Mr. Clifford's proposal is that the two operations i.e. 33 branches of Bankers Trust and 8 Albany branches of First American Bank would be combined. ... 2 15 cafes, Trent Bank &c.

Mr. Linstrom who is the present CEO of the 33 branches of Bankers Trust would become the Chief Executive of the whole operation.

At the same time, Mr. Compton would be given equal position in FABN, but the effective Chief Executive position would be held by Mr. Linstrom.

Mr. Compton retires in about two years time.

My observation was that Mr. Linstrom who is more able and competent should have a feeling of freedom in managing the whole operation and should not be inhibited by the presence of Mr. Compton. Mr. Clifford's view was that this was totally acceptable to

BOARD OF GOVERNORS

Mr. Linstrom and he does not anticipate any problems with regard to Mr. Compton.

∭ 3.

Mr. Clifford and Mr. Altman mentioned that they continue to monitor the management situation in New York although it is not without its problems.



The current issue with them is a capital expenditure of U.S.§ $2.5~\mathrm{million}$ for certain computer equipment etc. on which there is a difference of opinion. They are trying to resolve it.

SWALEH NAQVI) = #2 guy at BCCI

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U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS ONE HUNDRED SECOND CONGRESS

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FOR IMMEDIATE RELEASE September 11, 1991 Contact: Mike McGarry (202) 226-7850

WASHINGTON, D.C.-- U.S. Rep. Chalmers P. Wylie (R-OH) today released a report which suggests compelling new evidence that the Bank of Credit and Commerce International (BCCI) was more involved in the affairs of First American Bank than has been previously disclosed. The sixty-three page report, which was prepared at the direction of Rep. Wylie, who is the committee's Ranking Member, is based on documentary evidence obtained by the committee through a subpoena request to BCCI-related entities in the U.S., Federal bank regulators, and First American Bank.

"The overwhelming weight of evidence in the report appears to indicate that BCCI was more than a "passive investor" in First American," Wylie said. "This appears to have been a sophisticated scheme to deceive U.S. bank regulators, and I am at a loss to understand how Mr. Clifford and Mr. Altman were merely amiable dunces in this whole fiasco."

Some of the evidence cited in the report include the following:

- First American maintained an extensive correspondent banking relationship with BCCI.
- o Memorandum from Clark Clifford and Robert Altman to the President of BCCI regarding legal difficulties of BCCI's involvement with the National Bank of Georgia (NBG) stated: "A bigger problem, however, arising from BCCI's involvement in the transaction is that it might focus closer attention on the relationship between BCCI and CCAH." CCAH was the parent company of First American Bank.
- o A meeting headed by First American Bank of New York employee where statements were made concerning BCCI's control of the First American group of banks.

- o Robert Altman, President of First American Bank, attended BCCI's annual conference with top executives of BCCI for several years running.
- Internal documents indicate that CCAH had requested loans directly from BCCI, which were subsequently provided to CCAH through a nominee -- Sheik Kamal Adham.
- o Undercover tape recordings of BCCI employees indicate that Robert Altman was acting as their legal advisor and recommending that they leave the country to avoid service of process concerning the moneylaundering investigation. The tapes also state that BCCI owned First American Bank.
- o Clark Clifford and Robert Altman managed a \$30 million defense fund for BCCI. Checks were processed through First American Bank and it is clear by BCCI board minutes that Altman was involved in BCCI's legal strategy.

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BCCI AND ITS ACTIVITIES IN THE UNITED STATES

HOUSE BANKING COMMITTEE MINORITY STAFF REPORT SEPTEMBER 10, 1991

EXECUTIVE SUMMARY

The following represents key points in the Minority staff report related to the September 11th hearing dealing with the activities of Clark Clifford and Robert Altman at First American Bank and their relationship with BCCI:

- 1.) BCCI Account Activity at FAB FAB maintained an extensive correspondent banking relationship with BCCI. A total of 47 BCCI branches or affiliates maintained accounts at FAB. An internal FAB memo indicates that from 1986 to 1990, 71% of incoming wire transfers to FAB were from BCCI-Panama. Also, FAB held an account code-named "Gloria" that was involved in curious wire transfer activity from South America.
- 2.) Telex from Sami to Maqvi Telex concerning BCCI's interest in acquiring Financial General. Telex states "for presentation of the holding company application to FED our friend (believed to be Bert Lance) advised that we may retain Mr. Clifford as Chief Counsel ... Accordingly, I met Mr. Clark Clifford and explained to him our strategy and our goal. He was happy to know the details and has blessed the acquisition." Clifford denies meeting took place. However, there is absolutely no reason whatsoever to question the credibility of the telex and the facts contained therein.
- 3.) Clifford and Altman's memo to Abedi concerning NBG Clifford and Altman both sent Abedi a memo highlighting the legal difficulties of BCCI's involvement with the National Bank of Georgia deal. The memo states in one portion: "A bigger problem, however, arising from BCCI's involvement in the transaction is that it might focus closer attention on the relationship between BCCI and CCAH." Clifford denies that he ever read the memo before sending it.
- 4.) BCCI's Americas Coordinating Committee Meeting headed by FABNY employee where statements were made concerning BCCI's control of the First American group of banks. Altman attended the meetings at BCCI expense.
- 5.) Employment practices As a matter of course all applicants for senior positions at First American were required to be interviewed by BCCI officials. This appears to be highly unusual.
- 6.) Ryback Letters Exchange of letters between FED supervisory official William Ryback and Altman. FED letter inquires if BCCI has ever financed stock purchases in CCAH. Altman indicates that correspondence with BCCI shows that no financing provided to the original investors. Altman declines to mention \$15M in loans to himself and Clifford to purchase CCAH stock. Stock later resold at \$9.8M profit to Clifford and Altman. FED believes Altman misrepresented facts to Ryback.

- 7.) Clifford and Altman's stock deals Clifford and Altman used a \$15M loan from BCCI to purchase stock in CCAH beginning in 1987. Clifford and Altman bought the stock at \$2216 per share and sold the stock in 1988 for \$6800 per share. This price is the single highest price ever recorded for a share of stock in the annals of the FED. An independent valuation of the stock indicates a price of \$3400 per share would have been reasonable. Clifford and Altman made \$9.8M on the deal financed by BCCI.
- 8.) Certificates of Deposits FAB held several CDs with BCCI or its affiliate ICIC. It is unclear why it would place funds in an offshore bank with BCCI's reputation
- 9.) BCCI Oversight of FAB Operations Significant documentary evidence exists that BCCI exercised direct oversight over FAB operations. BCCI gave direction as to the choice of accountants and approved their billings. BCCI regularly reviewed FAB's operations. Clifford and Altman regularly traveled to London to confer with BCCI regarding FAB operations. For U.S. planning purposes BCCI appears to have considered FAB as a U.S. affiliate.
- 10.) BCCI International Conferences Altman attended BCCI's annual conferences with top executives for several years running.
- 11.) Clifford letter to Abedi Clifford sent a letter to BCCI head Aga Hasan Abedi indicating a desire to continue to pursue our "joint efforts." This appears to reference First American.
- 12.) Conflicts of Interests Clifford and Altman regularly represented all parties in transactions involving First American. The law firm of Clifford & Warnke were counsel to BCCI, CCAH, CCAI, FAB, and each individual shareholder of CCAH. Also, Clifford and Altman were on the boards of all of these entities except BCCI. It is questionable whether independent legal judgement could have been exercised in these transactions.
- 13.) BAII Loan Application Documents reviewed by Federal investigators at BAII in France appear to indicate that BCCI was acting as an agent for Clifford and Altman in soliciting loans to finance their CCAH stock purchases. BCCI had previously used BAII as a nominee for a loan granted to CCAH.
- 14.) Roundtrip of Funds Altman sold his stock in CCAH to an Arab investor who paid out of a BCCI Grand Cayman account. Altman repaid his personal loan from BCCI to a Grand Cayman account of the bank. Federal investigators have called this a "roundtrip" of funds and have cause to believe that this may have been a sham transaction to erase BCCI debt while giving Altman the profits from his stock deal.

- 15.) Loan from Adham Beginning in 1983 Sheik Kamal Adham loaned First American \$20M. However, internal BCCI documents indicate that CCAH had requested the loan directly and BCCI structured the loan through Adham as a nominee. It would appear that Clifford and Altman should have had direct knowledge of any CCAH loan request.
- 16.) Investigative Interviews Certain interviews done by Federal investigators indicate a belief that Clifford and Altman knew of the BCCI link with FAB. For example, a memorandum of interview with one witness states: "When we discussed the FED's theory that BCCI took control of FG through nominees he (the witness) said 'your're right ... but how are you going to prove it.'"
- 17.) Subordinated Debt Issue Documents housed at BCCI's Abu Dhabi office indicate that BCCI conceived a 1988 subordinated debt offering by CCAH. The FED was seeking new capital for FAB and Altman urgently called BCCI for an injection of capital. BCCI responded with a telex outlining a subordinated debt offering to be structured through a BCCI subsidiary.
- 18.) **Historical statements** Clifford and Altman made a variety of statements pursuant to CCAH's 1980 application to acquire FAB concerning the investors. Regulators are examining these statements to determine if they involved intentional misrepresentations.
- 19.) MBG Transaction Documents obtained from BCCI's Abu Dhabi office indicate that Altman may have directed a legal strategy related to FAB's NBG acquisition to evade FED scrutiny of BCCI's role in the transaction. Memos indicate that Altman designed the deal so that FAB's option to acquire NBG would not be linked with a loan from BCCI and be considered an "integrated transaction" that would have to be disclosed to the FED.
- 20.) Centrust BCCI had significant Centrust ties through the relationship of BCCI front man Ghaith Pharaon and David Paul. Pharaon bought the National Bank of Georgia from Bert Lance in the late 1970s and sold it to Clifford and Altman in 1986. Both transactions were financed entirely by BCCI. Pharaon and Paul had a meeting with Robert Altman on June 24, 1988 immediately before the two met with the FHLBB Chairman to seek regulatory relief for Centrust. Later it appears that Centrust and First American may have jointly conducted a due diligence concerning an acquisition of Lincoln Savings from Charles Keating. Finally, at a meeting with BCCI on October 2, 1989, Clifford indicated that Centrust was an acquisition candidate for First American. The Centrust-BCCI-First American link should be probed more deeply by the Committee.
- 21.) Moneylaundering Case Undercover tape recordings of BCCI employees indicate that Altman was acting as their legal advisor and recommending that they leave the country to avoid service of process concerning the moneylaundering investigation. The tapes also state that BCCI owned FAB.

- 22.) BCCI Legal Defense Fund Clifford and Altman managed a \$30M defense fund for BCCI. Checks were processed through FAB and it is clear from BCCI Board minutes that Altman was involved in BCCI's legal strategy.
- 23.) Bert Lance The role of Bert Lance in originally representing BCCI should be probed. BCCI bought the National Bank of Georgia from Lance and it appears that Lance was centrally involved in the BCCI plan to take over Financial General.

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Introduction

On July 5, 1991 the offices of Bank of Credit and Commerce International (BCCI) were seized in Europe, the United States and a number of other countries. On July 29, 1991, the Federal Reserve Board commenced enforcement proceedings against BCCI Holdings (Luxembourg), two subsidiary banks of BCCI in Luxembourg and the Cayman Islands and a Cayman Islands bank related to BCCI, for violations of U.S. banking laws. The Federal Reserve is seeking a \$200 million civil money penalty and will act to permanently bar nine individuals from any involvement with U.S. banking organizations in the future. A New York County grand jury has also returned an indictment against BCCI, its related entities and two of its founders. The charges include defrauding BCCI depositors, falsifying bank records to hide illegal money laundering and various larcenies totaling more than \$30 million.

The Federal Reserve's enforcement proceeding is based on evidence that BCCI illegally obtained control over several U.S. banking organizations through the use of "nominee" shareholders. The banks controlled by BCCI include First American Bankshares, Washington, D.C., the National Bank of Georgia, CenTrust Savings Bank, Miami, Florida and Independence Bank, Encino, California.

On September 5, 1991 the Tampa United States Attorney unsealed a second round of indictments against BCCI related

parties. Capcom Financial Services, LTD., a BCCI subsidiary, is charged, as part of the BCCI international banking group, as being a Racketeering Enterprise under the RICO Act, 18 U.S.C. 1957, 1952. Swaleh Naqvi, Dildar Rizvi, Bashir Shaikh, Wilfredo Glasse and S.Z.A. Akbar who are all current or former BCCI officers, are charged with the commission of a pattern of racketeering activity involving money laundering through the use of foreign and domestic branches of BCCI. The indictment also alleges that Akbar used BCCI branches to hide and transfer approximately \$23 million controlled by Manuel Antonio Noriega and his family. These acts occurred after Noriega was indicted for narcotics trafficking in the U.S.

This report will chronicle the history of BCCI and the means by which BCCI gained control of American banks and assess the activities of federal banking and law enforcement agencies.

The Origins of BCCI

In 1972 a Pakistani banker, Agha Hasan Abedi, fearing the imminent nationalization of Pakistan's banks, established the Bank of Credit and Commerce International in Luxembourg. Bank of America, desirous of increasing its banking ties in the Middle East, had a 30% stake in the venture. A BCCI subsidiary bank was established in the Cayman Islands while the bank's main operations were run out of the London branch. BCCI began an aggressive growth campaign and established branches throughout

the Middle East, Africa, Latin America and Asia. By 1990, BCCI had more than \$20 billion in assets, over 14,000 employees, and 417 offices in 73 countries.

In Pakistan, BCCI became part of the ruling establishment, acting as banker for influential officials and even lending to the government to overcome balance of payments problems. Under Abedi's direction, BCCI made loans to senior civil servants, offered scholarships and jobs to their children and gave a number of government officials jobs at BCCI. Pakistan's President, Ghulam Ishaq Khan, runs the BCCI Foundation, nominally a charity to benefit humanitarian projects in Pakistan. It has been reported that only a small portion of the Foundation's funds are used for humanitarian purposes and that it is mainly a cloak for Abedi's illicit activities.

BCCI's activities in Pakistan are illustrative of what the bank was able to accomplish in a number of other countries. In Peru, former President Alan Garcia is being investigated on charges of the improper use of Treasury funds with BCCI's assistance. Members of Argentine President Carlos Menem's family have been charged with laundering drug money through BCCI offices. The BCCI pattern of befriending public officials and promoting charities while engaging in shady banking practices has been discovered in a number of other countries, including the United States.

One of the main reasons BCCI was able to carry out its business undiscovered for so many years was the fact that it was so minimally regulated. Luxembourg and the Cayman Islands are known tax havens with extremely obliging bank supervisors. The BCCI corporate structure was specifically designed to circumvent the proper regulatory oversight of its activities. No central bank was involved. There were no consolidated examinations or audits.

Abedi's grand ambitions for his bank included establishing a foothold in the United States. In 1975, an attempt by BCCI to purchase Chelsea National Bank in New York was rejected by the regulators. BCCI was turned down because of perceived weaknesses in management and in their regulatory structure. Abedi, however, was undaunted and was quoted in 1978 as saying that Financial General Bankshares (FGB) would be an ideal place to establish operations in the U.S. (FGB was a multibank holding company with subsidiary banks in Washington, D.C., Maryland, New York, Tennessee and Virginia.) In the early 1980's, a senior BCCI official was informed by counsel that BCCI could not obtain Federal Reserve Board approval to acquire U.S. banks. Until 1990, Federal bank regulators assumed that BCCI was not involved in the ownership or operations of any American banks. Unfortunately, recent revelations have shown that BCCI has controlled a number of institutions in this country since at least 1982.

BCCI's Expansion into the U.S.

BCCI Acquisition of FGB

On November 9, 1977, at the suggestion of Bert Lance, Abdus Sami, a senior BCCI official, met with Jackson Stephens, an investment banker from Arkansas, to discuss the BCCI purchase of the National Bank of Georgia (NGB). Lance owned 12% of NBG. At that meeting, Stephens suggested to Sami that Financial General Bankshares might be a good investment for BCCI. From December of 1977 through February of 1978, four Middle Eastern investors, acting through Abedi and Sami, purchased almost 20% of the voting shares of FGB. The investors were Kamal Adham, a former Saudi intelligence chief, Faisal Saud Al-Fulaij, a Kuwaiti businessman, Abdullah Darwaish (as a representative of Sheikh Mohammed bin Zayed al Nahyan), and Sheikh Sultan bin Zayed al Nahyan (both Mohammed and Sultan are in the Abu Dhabi royal family).

On January 30, 1978, Sami sent a telex to Abedi regarding the acquisition of FGB. Sami referred to "BCCI's intention to acquire control" of FGB. He states that "we have to be careful that our name does not appear as financier to most of them for this acquisition." Sami noted the need to keep each individual shareholder's stake under 5%, presumably in order to avoid SEC

¹ Federal Reserve document. Telex to Abedi in Karachi, Pakistan.

filing requirements and Bank Holding Company Act requirements. He also mentioned that, at the suggestion of Lance, he had retained Clark Clifford. "I met with Mr. Clark Clifford and explained to him our strategy and our goal.... He was happy to know the details and has blessed the acquisition."

On February 17, 1978, Financial General filed suit in federal court against BCCI, Abedi, Lance and others, alleging violations of the Securities and Exchange Act by failing to make the required filings. On March 17, 1978 the SEC filed a separate suit against the same defendants. On that same day each defendant agreed to a consent judgement that included an injunction prohibiting any further SEC violations. As part of the consent order the four investors and ICIC Overseas (a BCCI subsidiary in the Cayman Islands) agreed to make a tender offer for all FGB shares, subject to regulatory approval.

On April 27, 1978 the federal district court in the FGB action issued a preliminary injunction against BCCI, Abedi and the other defendants. The court ordered the defendants, before buying any additional FGB shares, to rescind the prior purchases.

² Ibid.

The court made the following findings:

- The four BCCI clients relied heavily, if not exclusively, on the recommendations of Abedi and BCCI in deciding to purchase FGB shares;
- 2) Abedi, Sami, and other BCCI agents were actively involved in the purchase of FGB shares from existing shareholders;
- 3) In December 1977, BCCI's agents sought to purchase a percentage of FGB shares substantially in excess of any amount for which they had purchasers;
- 4) Abedi and BCCI recommended the purchase of FGB shares only to the four clients who later made purchases;
- 5) Two clients, Adham and Darwaish, gave BCCI broad authority, including the right to vote the shares; and,
- Abedi, BCCI, their agents and the BCCI clients agreed to pool the voting power of the shares owned by the four BCCI clients with the voting power of FGB shares controlled by BCCI's agents to exert significant influence on the management of FGB.

In July and August of 1978, Credit and Commerce American Holdings (CCAH), Netherland Antilles, and Credit and Commerce American Investments (CCAI), Netherlands, were established as

vehicles for acquiring shares in Financial General. CCAH and CCAI are essentially shell holding companies established to purchase FGB and to minimize taxes. In SEC filings, BCCI, Abedi and the four investors stated that BCCI would have no interest in CCAH. However, ICIC would own less than 5% of CCAH shares.

Also in July of 1978, Robert Altman, the attorney representing BCCI, Abedi and the investors, in a key maneuver effectively blocked opposing counsel in the FGB suit from gaining possession of Bank of America documents relating to BCCI. These records indicated that the relationships between BCCI and the four investors involved substantial existing loans to two of the investors and BCCI stock ownership by all of the investors. Additionally, one of the investors, Adham, was suspected of receiving large payments from the Boeing Corporation in order to obtain contracts in the Middle East. This type of behavior led to the passage of the Foreign Corrupt Trade Practices Act.

On October 19, 1978 CCAH and CCAI filed an application with the Federal Reserve Board for prior approval under the BHC Act to purchase all of the voting shares of FGB. The 1978 application stated that approximately \$70 million would be required to make the tender offer. That money was to be obtained from a limited number of investors in return for shares of CCAH. The

³ Affidavit filed by Douglas M. Kraus, attorney for Financial General, <u>FGB v Lance. BCCF et al</u>

application stated that the proposed individual investors have "substantial personal funds... the funds to be used by each of them to purchase the equity interest in CCAH will be provided from their personal funds and possibly personal borrowings... from one or more financial institutions (which would be unaffiliated with BCCI or any of its affiliates)... if personal borrowings are made, FGB shares will not serve as collateral for such borrowings." Robert Altman, as counsel, in a letter to the Federal Reserve stated that "neither BCCI nor any other organization related to BCCI contemplates owning any equity interest in CCAH." The CCAH shareholders were to be ICIC Overseas (4.5%), Adham (24%), Darwaish (24%), Fulaij (24%) and several other Middle Eastern entities.

On February 16, 1979 the Federal Reserve Board rejected the application on the grounds that the hostile acquisition of FGB's Maryland subsidiary bank would violate Maryland law. The Maryland Attorney General issued an opinion stating that it was unlawful for a Maryland bank to have an affiliation to which the bank had not consented.

In April of 1980, Adham solicited proxies from FGB shareholders for the 1980 shareholders' meeting urging support for a resolution favoring a proposed tender offer by CCAH. The proposal was narrowly defeated. However, shortly thereafter,

Federal Reserve Board Notice of Charges, p. 18.

FGB management resolved its differences with the BCCI backed group and on July 25, 1980 an agreement was reached permitting a tender offer at \$25 per share. Thus clearing the way for the group to buy FGB.

On November 25, 1980 CCAH again filed an application with the Federal Reserve Board. It stated that the \$180 million needed to complete the acquisition would come from three sources:

- Equity contributions to CCAH from Adham, Fulaij and Darwaish;
- 2) The sale of CCAH shares to three BCCI clients and other investors; and,
- 3) A \$50 million loan from an institution not related to BCCI. 5

The application stated that "no [CCAH] principal will retain any personal indebtedness in connection with this transaction ... funds to purchase their equity interest in CCAH will be provided from their personal funds." All applicants assured the Federal Reserve that there was no relationship between CCAH and BCCI, other than BCCI acting as investment advisor to Adham and Fulaij. Altman wrote to the Board stating: "[w]ith regard to the stockholders of CCAH, all holdings constitute personal

⁵ Ibid, p. 20.

investments. None are held as an unidentified agent for another individual or organization. 16

In a March 12, 1981 letter from the Office of the

Comptroller of the Currency, the OCC cited the representation of
applicant's counsel that BCCI would not be involved in the
financing or management of Financial General. The OCC letter
said: "[t]his commitment is critical, both now and in the
future, since such relationship with another financial
institution would be a significant factor in appraising this
application ... [A]ny enhanced direct or indirect affiliation or
relationship between BCCI and Financial General would take on
even greater significance in light of the fact that BCCI is not
subject to regulation or supervision on a consolidated basis by a
single bank supervisory authority."

On April 23, 1981 a hearing was held at the Federal Reserve. Adham stated: "There is ... no understanding or arrangement regarding any future relationship or proposed transactions between Financial General and BCCI ... I would like to assure you that each one [investor] on his own rights will not accept in any way to be a cover for somebody else ... We are doing it for ourselves." Altman said: "there is no connection between those entities [CCAH and CCAI] and BCCI in terms of ownership or other relationship." Clifford added: "There is no function of any

b Ibid, p. 20.

kind on the part of BCCI ... I know of no present relationship, I know of no planned future relationships that exist ... "

On August 25, 1981, the Federal Reserve, based on the representations of the applicants and their shareholders, issued an order approving the acquisition of FGB. On March 2, 1982, the New York State Banking Board approved CCAH's application to acquire FGB after CCAH agreed to divest FGB's New York subsidiary, the Bank of Commerce. On March 2, 1982 a CCAH tender offer of \$33.80 per share was accepted. The purchase was final on April 16, 1982. Clifford became a managing director of CCAH and Chairman of the renamed First American Bank (FAB). Altman was also named a director of First American Bank and president of its direct parent company, First American Corporation (FAC). Clifford and Altman continued to act as attorneys for First American, FAC, CCAI, CCAH and BCCI.

The only regulator to urge that the CCAH application be denied was Sidney Bailey, Commissioner of Financial Institutions for Virginia. On December 31, 1980, Bailey sent a letter to the Federal Reserve stating that "[T]he application generates but leaves unanswered a number of concerns and questions including but not limited to, the ultimate source and nature of policies controlling the activity and operation of the banks involved, the

Transcript of Federal Reserve Board hearing, April 23, 1981.

soundness of such policies, and their consequences upon the continued soundness of the bank and the accessibility and responsibility of those finally responsible for making policy." 8

BCCI's Nominee Arrangements

In December 1990, the Federal Reserve discovered that BCCI had controlled shares in CCAH since as early as 1982. documents reflecting BCCI's control had been concealed from U.S. regulatory authorities and were maintained in BCCI's overseas offices, sometimes in the private offices of Abedi and Nagvi. the time of the 1982 acquisition of FGB, BCCI controlled, by means of nominee arrangements, 25% or more of the voting shares of CCAH. The failure to disclose this ownership is a violation of the Bank Holding Company Act. BCCI had started financing these stock purchases in late 1977. BCCI's arrangements with the nominees included the following: loans to the individuals to purchase CCAH shares, in which the nominees were not liable for servicing or repayment of the loans; presigned, blank share transfer deeds; agreements with the nominees under which BCCI was authorized to sell shares and retain the profits for itself; agreements by BCCI to indemnify the nominees against any loss they might sustain in their investments; memoranda of deposit granting BCCI the power to vote the pledged shares; and,

⁸ Virginia Commissioner of Financial Institutions letter to Federal Reserve, December 31, 1980.

agreements to provide the payment of fixed profits and fees to shareholders for their services. After 1982, BCCI made a number of additional acquisitions through arrangements with the nominees. BCCI currently controls 60% of CCAH shares.

The transactions involving Sheikh Adham provide a good example of a nominee arrangement. On March 2, 1982, Adham acquired 19,050 shares of the new entity, CCAH, by trading in his existing FGB shares and paying an additional \$13,110,118 in cash. Despite his prior representation before the Federal Reserve about the use of his own funds, Adham borrowed the \$13,110,118 from BCCI.

On December 21, 1982, BCCI acquired 15,050 shares from Adham for \$27,090,000, but kept them registered in Adham's name. The 15,050 shares were available to be sold by BCCI to selected buyers. BCCI booked the \$27,090,000 as a loan to Adham from ICIC overseas and used the proceeds to discharge Adham's loan accounts at BCCI. In June of 1983, BCCI extended two loans to Adham to discharge the \$27,090,000 loan from ICIC Overseas. These loans have never been serviced or repaid.

In 1983, BCCI purchased additional CCAH shares in the name of Adham in rights offerings and related transactions. At the end of 1983, BCCI controlled 26,319 CCAH shares in the name of Adham, 16.86% of CCAH shares. In 1986, BCCI acquired an

additional 8,544 shares in a rights offering through Adham. BCCI (Caymans) advanced the \$18,933,504 purchase price for the acquisition of the shares and pledged the shares to secure the loan. On August 2, 1987, ICIC wrote to Adham assuring him that his loans would be repaid from the sale of the pledged shares and that Adham would carry no personal liability for the loans.

In 1987 and 1989 rights offerings, BCCI again acquired more shares in Adham's name. BCCI made the loans and the loans were collateralized with the shares themselves. In April of 1988, Adham granted ICIC full authority to obtain additional shares of CCAH in Adham's name. In return, ICIC agreed to indemnify Adham for any claims relating to outstanding loans and agreed that its only source of repayment would be the sale of the shares. None of the loans extended to purchase shares in the name of Adham has been repaid or serviced except through other loans from BCCI or ICIC.

A condition of the original approval of the sale of FGB was the injection of additional capital to be obtained from an institution not related to BCCI. An Arab-owned French investment bank, Banque Arabe et Internationale d'Investissement (BAII), loaned \$50 million to CCAH, secured by a deposit from Adham. Adham concealed from the Federal Reserve the fact that BCCI was indirectly funding his deposit and thereby the BAII loan. In

Federal Reserve Notice of Charges, p. 30.

addition to the profit Adham realized in the 1982 sale of his shares to BCCI, he was paid \$200,000 by BCCI for acting as its nominee. Through the use of Adham as a nominee, BCCI was able to control between 12% and 19% of CCAH shares. BCCI used similar nominee arrangements with Faisal Saud Al-Fulaij, A.R. Khalil, Sayed Jawhary and several companies controlled by the ruling families of the United Arab Emirates.

BCCI Involvement in First American Management

In 1983, in order to expand its banking presence in New York, First American acquired two branches from Bankers Trust in Manhattan that were added to the recently acquired bank, renamed the First American Bank, New York (FABNY). BCCI participated in the purchase of these branches. 10 Khusro Elley was in charge of the BCCI representative office in New York. He initially met with Bankers Trust representatives to purchase the branches for BCCI. He then negotiated on behalf of First American while still working as a BCCI employee. During the course of the negotiations, Elley told the Bankers Trust representative that if a higher bid price was required, his management in London might reconsider whether to bid at all. 11 At the time of his statement, First American had no office or representatives in London.

¹⁰ Federal Reserve Notice of Charges.

¹¹ Ibid.

-18-

It is also apparent that BCCI, in violation of representations made in the Fed-approved application, participated in the selection of FABNY officers. Elley was hired in 1983 as FABNY's senior vice president. Prior to contacting Elley, Altman had discussed the position with BCCI President Nagvi who suggested that Elley be hired by FABNY. 12 Federal investigators allege Elley continued to receive financial benefit from BCCI while employed at FABNY. Federal Reserve investigators found that Elley was still on the BCCI pay roll. Aijaz Afridi, a long-time BCCI employee, was also hired by FABNY as executive vice president. During his tenure at FABNY, from July 1983 through May 1987, Afridi kept in close contact with BCCI, speaking almost daily with BCCI's London office. Afridi left FABNY when Abedi asked him to manage BCCI's operations in Spain. Additionally, Afridi and Elley, while working for FABNY, attended several of BCCI's annual conferences where BCCI senior management were brought together from all over the world. A number of other individuals who were seeking jobs or who were placed in FABNY had to be approved by Abedi and Naqvi.

BCCI monitored the operations of First American and other banks through its "Americas Coordinating Committee." Abedi ordered the establishment of the Committee in 1985 and its first meeting was held in New York on April 24, 1985. This meeting was attended by Afridi and Elley, FABNY employees. Afridi chaired

¹² Ibid.

the first meeting and described the Committee's purpose as "coordinat[ing] the efforts of different locations of BCCI and other institutions so that the President's [Abedi's] desire to have a totality in approach is achieved." Officials representing each BCCI office participating gave summaries of their banks' business; Elley did so with respect to FABNY. Elley told the participants that "in America we are sitting on \$7 billion dollars in assets and this is just the beginning." Robert Altman also attended this meeting. At that time BCCI's U.S. agencies only held \$800 million in assets. The inclusion of the assets of First American and National Bank of Georgia would have totaled \$7 billion.

The second meeting of BCCI's "Americas Coordinating

Committee" occurred in Miami on June 2, 1985. Afridi and Elley

again attended. Mansoor Shafi, FABNY vice president, was

designated as the contact person for any BCCI managers wanting to

contact First American. In response to a request from the head

of BCCI's Latin American region, Afredi said he would have two

latin officers at FABNY forward the list of their contacts.

Additionally, Abedi acknowledged control of First American in April of 1987 in an address to BCCI's Far East Region Senior

Federal Reserve enforcement proceeding, p. 64.

¹⁴ Ibid, p. 65.

Executives in Hong Kong. He stated that "[y]ou are now within the First American Group of banks...." 15

BCCI Accounts and Other Transactions at First American

A total of 47 branches, subsidiaries and affiliates of BCCI maintained U.S. dollar accounts at First American Bank of New York. FABNY also advised, confirmed and negotiated letters of credit originated by BCCI banks. An internal First American document dated August 9, 1990 revealed that the First American Banks, excluding New York and Georgia, showed hundreds of wire transfers to and from BCCI entities over the five year period from 1985 through 1990. A June 20, 1990, First American memorandum reviewing wire transfer activity from Panama during the period from February 1986 through February 1990 revealed that there were 687 incoming transfers totalling \$46,126,971.00 and 361 outgoing transfers totalling \$31,901,23.00. Seventy one percent of the incoming transfers were from BCCI-Panama. BCCI was indicted in Florida in October of 1988 for using the Panama branch and a number of other branches to facilitate the laundering of drug money. BCCI pleaded guilty to money laundering in February of 1990.

Additionally, the Minority staff uncovered the existence of an account by the code name "Gloria" in Argentina. According to internal bank documents, the account was allegedly for a foreign

¹⁵ Ibid, p. 66.

exchange house in Argentina. However, an internal audit showed that the mailing address for Gloria was in Montevideo, Uruguay and was not a legally registered entity in Argentina. The First American audit indicated that "Gloria" was used to cash U.S. checks for U.S. dollars in Argentina. The checks were then sent to the FABNY for deposit in the "Gloria" account, and then funds were subsequently wired to other U.S. banks and foreign banks. Significantly, unexplained wire transfers came from Panama into the "Gloria" account. Although the internal auditor concluded that "Gloria" was not being used to launder money, the minority staff will continue to investigate the true nature of the "Gloria" enterprise.

Clark Clifford and Robert Altman:

Knowledge of and Involvement in the BCCI Control of First American Bank

Despite Clifford and Altman's insistence they were duped along with the regulators, an examination of the documentary evidence available to the Committee strongly suggests that these two sophisticated Washington attornies should have known about BCCI's involvement in First American:

1) Sami Telex - Abdus Sami, a BCCI senior executive in
1977 and 1978, indicated in a telex to Abedi that each
shareholder's stake must be kept under 5% to avoid
reporting requirements and that BCCI must not appear as
financier in the acquisition. He also mentioned that

Clark Clifford had been hired to represent BCCI shareholders. "I met with Mr. Clark Clifford and explained to him our strategy and our goal.... He was happy to know the details and has blessed the acquisition." The 1978 application failed, but, Clifford and Altman remained counsels for the second attempt in 1980, when the attorneys assured the Federal Reserve that BCCI was not the financier and would play no role in the future operations of the bank.

Information on the Middle Eastern Investors - In July 2) of 1978, Altman, as BCCI counsel blocked opposing counsel in the case of FGB v Lance, BCCI, et al from obtaining documents in London in the possession of Bank of America. Bank of America held a 30% interest in BCCI and was involved in its management up until 1980 when B of A sold its interest. The B of A records show that BCCI was involved with the Middle Eastern FGB investors in a manner that indicated that BCCI was far more than an investment advisor. Two investors, Adham and Fulaij, had substantial loans outstanding to BCCI. Additionally, Adham was suspected of receiving large payments from the Boeing Corporation in order to expedite contracts in the Middle East. It has been reported that Fulaij also received \$300,000 from Boeing for obtaining a contract with the government of Kuwait.) These allegations did not deter Clifford from stating at the April 1981 hearing at the Federal
Reserve: "I have the deepest respect for Sheikh
Adham's character, reputation, honor and integrity. I
am proud to be an associate of his... [t]hese men (the
investors) because of the reputation they have in their
business careers have already demonstrated a
willingness to abide by U.S. law."

- Altman sent a letter to Naqvi along with a legal memorandum concerning the potential acquisition of National Bank of Georgia. In the memo, one particular option is discouraged because the application process might disclose the relationship between CCAH (First American's holding company) and BCCI. Also in the same letter, despite representations made in 1980 and 1981 by Clifford, Altman and the applicants that BCCI would not be a lender, Altman suggests that "[I]t would be appropriate if BCCI itself wished to consider being a lender" [so that First American could acquire NBG.] 17 On June 17, 1986, it appears that Clifford sent the same legal memorandum to Abedi.
- 4) Legal Fees BCCI paid all of the Clifford and Warnke billings for First American, CCAH, CCAI and BCCI. In

¹⁶ Transcript of Federal Reserve Board hearing.

 $^{^{17}\,}$ Federal Reserve records, letter from Altman to Naqvi, May 8, 1986.

response to a November 1981 letter from Clifford to

Abedi, BCCI sent a check for \$485,000 for legal fees related to the purchase of Financial General [March 19, 1981 to August 30, 1981]. In a February 5, 1986 letter from Altman to Naqvi, the legal bill owed for 1985 regarding First American and BCCI matters totaled \$324,613.77. BCCI sent a check for that amount. Americas Coordinating Committee - As part of the 1985 5) billings, BCCI was charged for legal preparation for and Altman's attendance at an international BCCI managers' conference in New York, on April 24, 1985. At that meeting, called the Americas Coordinating Committee, the acting chair was Afridi, at that time FABNY's executive vice president. Afridi described the purpose of the meeting as "coordinating the efforts of different locations of BCCI and other institutions so that the President's [Abedi's] desire to have a totality of approach is achieved." Afridi said that "our major task in the U.S. should be to build market share" for BCCI. An official representing each BCCI office gave a summary of that office's business. Elley did so regarding FABNY.

Also at the April 24, 1985 meeting, Elley told the BCCI managers that "in America we are sitting on \$7 billion dollar assets and this is just the beginning." In

April of 1985 BCCI's U.S. agencies held \$800 million in assets. The assets of First American and National Bank of Georgia would have had to be added to reach the \$7 billion figure. Statements by BCCI officers describing the relationship between BCCI and First American were also made at a number of other BCCI conferences and meetings which were attended by Altman. As First American officers and BCCI counsel, it would have been difficult for Clifford and Altman not to have been aware of these representations.

Employment Practices - It appears that Clifford and 6) Altman were aware that BCCI violated representations made in 1980 and 1981 that BCCI would have no relationship with CCAH other than as an investment advisor to certain shareholders. BCCI, with Altman's knowledge, participated in the selection of officers for First American Bank of New York. Elley, a longtime BCCI employee, was hired to be FABNY senior vice president. Elley was hired at Naqvi's suggestion. In 1983, Afridi, the executive vice president and also a long term BCCI employee, was hired by Abedi during Fed interviews with former FABNY employees reveal that Afridi's tenure at FABNY, from 1983 through 1987, he was in contact with BCCI (London) almost daily. Before other senior officers were hired they had to go through two sets of interviews, one with Elley and Altman, and

the other in London with Abedi, Afridi and Naqvi.

7) Ryback Letters - On December 13, 1989, William A.

Ryback of the Federal Reserve Board wrote to Altman and asked him to "provide information on any loans extended to the original or subsequent investors [in Financial General/First American], either directly or indirectly, by BCCI or any of its affiliated organizations."

Documents retained by BCCI in Abu Dhabi indicate that the Ryback correspondence was actively discussed by senior BCCI officials.

Altman responded on February 5, 1990 and stated that
"we do not have access here to information regarding
any financial arrangements that might exist between
shareholders of [CCAH] and other financial
institutions, including [BCCI]." What Altman failed to
disclose and what is arguably a misrepresentation of a
material fact was that Altman and Clifford borrowed \$15
million from BCCI (Caymans) in 1986 and purchased 6742
shares of CCAH. In 1987 Clifford and Altman borrowed
\$3.45 million, again from BCCI (Caymans), and purchased
another 1426 shares. The shares were purchased at book
value in a rights offering. In 1988 they sold 4800 of
the shares to another nominee shareholder for
\$32,640,000, a profit of \$9.8 million after deducting

interest and commission expenses. 18 Federal Reserve officials informed the Committee that Altman "unequivocally" should have reported all BCCI-financed CCAH purchases, including those of Clifford and Altman.

Altman wrote a second letter to Ryback on December 20, 1990, indicating that M.M. Hammoud may have pledged his CCAH stock to BCCI as collateral for BCCI loans.

Altman again neglected to inform the Fed that he and Clifford obtained non-recourse loans from BCCI to purchase CCAH stock. Their stock was also pledged as collateral for their loans.

8) Stock purchases - The facts surrounding the CliffordAltman stock purchases indicate that factors other than
"arms length transactions" and "market prices" may have
been involved. The loans from BCCI were at the LIBOR
rate, over two percentage points below prime. Altman
and Clifford purchased their shares pursuant to the
1986 rights offerings at book value, approximately
\$2,200 per share, which was substantially below what
the shares had been selling for. For a non-shareholder
to purchase shares in a rights offering, existing
shareholders have to waive their rights to participate.
In the 1986 purchase, Clifford and Altman took the

¹⁸ Federal Reserve records, Price Waterhouse audits, Hill and Knowlton report.

rights offering of a shareholder that had purchased stock at the full price the day before. For that shareholder not to take advantage of the rights offering just does not make sense. Finally, the stock was sold by Clifford and Altman at a price of \$6,800 per share after 18 months. According to the Federal Reserve this is the highest price per share ever paid for a bank stock. A Price Waterhouse audit subsequently valued the shares at less than half of the value paid to Clifford and Altman.

experiencing cash flow problems due to poor underwriting and non-payments. In 1986, the bank experienced a \$150 million trading loss in government securities. Some believe that this loss may have been as high as \$450 million. Yet, in 1986 and 1987, First American and CCAH, under the direction of Clifford and Altman, purchased at least \$74 million of CDs from BCCI's Cayman Islands affiliates. These CDs were uninsured and BCCI was not protected by the safety net of a central bank.

Even after BCCI was convicted of money laundering in February of 1990, First American and CCAH continued purchasing CDs from BCCI's Cayman Islands affiliates.

¹⁹ Federal Reserve Records, Price Waterhouse audit.

In April of 1990, CCAH invested \$444,000 in BCCI CDs and rolled over \$2.5 million in maturing CDs.

Similarly, in July of 1990, CCAH invested \$447,000 with BCCI and rolled over an additional \$1.75 million.

10) BCCI Financial Review - A memo obtained by Federal investigators from BCCI's Abu Dhabi office indicates that BCCI reviewed FAB's financial performance on a periodic basis. A memo from Shamid Jamil to S. Naqvi and K. Shoaib is entitled "Half Yearly Review of FAB." The memo begins, "Please find enclosed a review of First American Bank shares for the half year ended June 1984. The Bank has achieved the budgeted figure for deposits and exceeded that for loans." The memo then discusses certain financial information and closes by stating, "It is, therefore, apparent that First American Bank shares have failed to achieve their budget for the half year ended 30th June 1984, by US\$ 1.56M. Perhaps Mr. Altman may require some assistance and guidance in enabling him to reach the budgeted income figures in the second half of 1984..." At the bottom of the memo is a hand written note, "Agha Saheb [Abedi] - I have since discussed the half-yearly result of FAB, with Mr. Altman to draw his attention to the area in which the group's income is falling behind budget, on a pre-tax income basis." Correspondence files held in Abu Dhabi indicate that Altman regularly

submitted financial information to BCCI in order to evaluate FAB performance. This form of review by BCCI appears to demonstrate the level of control that they exercised over FAB and Altman. Also, it appears that Clifford and/or Altman were flying to London on a frequent basis to confer with BCCI officials on FAB operations.

11) BCCI Oversight of Operations - Memoranda retained in BCCI's Abu Dhabi office indicate that BCCI was intimately involved in directing Mr. Altman on many of the details concerning FAB's ongoing business. A memo dated July 7, 1982 from Shahid Jamil to Agha Hasan Abedi memorializes "Meeting with Mr. R. Altman and other tax lawyers in New York - 24-27 June 1982." The memo describes Jamil and Altman's meeting concerning BCCI's requirements for independent audits of CCAH and CCAI. It describes discussions concerning a wide variety of topics including litigation, office leasing, problem real estate and accounting matters. The memo states, "I discussed the budget of FGB with Mr. Altman and pointed out that the budget for the year 1982 of \$31.8 million barely exceeded the results for the previous year of \$30.6 million. After discussing the need for leadership and vision in the operation and the need for FGB to earn enough profits to service its debt, Mr. Altman agreed that he would set about

motivating the management of FGB ..." Jamil concludes the memo by indicating that he was "developing a simple system for monitoring monthly financial performance of the main FGB banks so that I can keep you informed of their progress." Other memoranda found in Abu Dhabi indicate that for U.S. planing purposes BCCI officials considered FAB as a BCCI affiliate.

- Jamil's meeting with Altman discussed above, Ernst and Whinney was retained to audit CCAH and CCAI. However, Ernst & Whinney sent an engagement letter dated August 13, 1982 concerning the independent audit to BCCI directly and not to CCAH. The engagement letter references recent phone conversations with BCCI and appears to imply that the auditors considered that BCCI was the client as CCAH's parent. Additionally, several communications were reveiwed from CCAH files indicating that BCCI directly supervised the payments to E&W as well as to other professionals related to CCAH's Dutch registry.
- 13) Clifford Letter to Abedi Clifford sent a letter dated
 March 4, 1983 to BCCI head Aga Hasan Abedi after back
 surgery indicating a desire to "again resume our joint
 efforts." This further evidences the close
 relationship between BCCI and FAB officials.
- 14) Conflicts of Interests Clifford and Altman regularly

represented all parties in transactions involving First American. The law firm of Clifford & Warnke were counsel to BCCI, CCAH, CCAI, FAC, FAB, and each individual shareholder of CCAH. Also, Clifford and Altman were on the boards of all of these entities, except BCCI. It is questionable whether independent legal judgement could have been exercised in these transactions. It should be noted that one of the more interesting documents reviewed during the Committee's investigation was a letter dated June 9, 1989 from Robert Altman, CCAH Managing Director to Robert Altman, shareholder! Moreover, inquiry should be made as to whether certain knowledge could be imputed to Clifford and Altman about their clients through this multiple representation and whether as directors of CCAH and FAB they had a duty to investigate the role of BCCI.

15) BAII Loan Applications - Federal investigators have been permitted to review certain files of BAII related to BCCI and its affiliates. One file reviewed entitled "1st American 1985" contained "Memo re loan to Clifford & Altman 12/29/85." The Investigator noted the contents of the file as:

"Other details requested by BCCI:"

- 1. No external lawyers in preparation of documentation.
- 2. Transfer of one borrower's debt to surviving borrower on death of the former.
- 3. No syndication of the loan.
- 4. No participation by BCCI in loan.

5. No put available from other shareholders.

Notes that security is illiquid but that market value if buyer found is twice book. Presumably the borrowers anticipate sale within 5 years.

Clifford and Altman initially went to BAII to finance their purchases of CCAH stock and this memo would seem to reflect this request. BAII never granted the loan to Clifford and Altman and the financing was instead provided by BCCI. This document appears to indicate that BCCI was acting as an agent for Clifford and Altman in obtaining these loans.

16) 1983 CCAH Share Subscription - A telex contained in BCCI's Abu Dhabi files dated November 1, 1983 from Imran Iman of BCCI to Mr. K.K. Elley of FABNY seems to indicate that BCCI was directly supplying \$75 million in capital to CCAH. The text of the telex indicates that BCCI was going to provide the \$75 million directly to CCAH and details regarding how these funds would be attributed to nominee shareholders would be worked out later by Altman. The telex states:

REFERENCE OUR TELEPHONE CONVERSATION OF YESTERDAY(.)

Amount totalling US\$75,009,375.- is being credited value today to your account no 01020071 with State Bank of Albany ABA No. 0213-0001-9

I have discussed the matter at length with Mr Lesher(.) Mr Altman is concerned that the injection of capital should not take place prior to his discussion relating to change, if any, in the shareholders of CCAH(.)

It is, therefore, suggested that the above funds may kindly be received in an account to be called "CCAH"

ERRATA

Page 34 of the report as originally distributed to Members erroneously characterized loans to Mr. Altman as interest-free, non-recourse loans. The loans were non-recourse, but interest was due upon repayment of principal. The attached page 34 deletes the term "interest-free" in the two places it occurred in the original.

share subscription account* to accrue interest as on call deposits(.) At a later date of 10th or 15th November (to be determined by you and Mr Altman the funds may then be transferred into the account of CCAH(.) During the interim period (prior to the injection of capital into CCAH) Mr Altman will be able to resolve various matters relating to the shareholders(.)

You may like to discuss the above matter with Mr Naqvi(.)

- Roundtrip of Funds To finance his acquisition of CCAH 17) shares, Altman personally borrowed approximately \$6M from BCCI in 1986 and 1987 through non-recourse loans. In 1988, Altman sold his stock in CCAH to an Arab investor who funded the transaction through a BCCI loan wired to Altman from a BCCI Grand Cayman account. Altman immediately repaid these personal loans from BCCI with interest and commissions to a BCCI Grand Cayman account. Federal investigators have called this a "roundtrip" of funds and indicate that the transaction may be considered a sham transaction to extinguish Altman's indebtedness to BCCI on his stock Federal officials believe that Altman's loans. non-recourse loans from BCCI and the roundtrip of funds enabled Altman to accuire the profits of his stock deal with no risk.
- 18) Loan from Adham Beginning in 1983, Sheik Kamal Adham loaned First American \$20 million. However, internal BCCI documents indicate that CCAH had requested the

loan directly and BCCI structured the loan through Adham as a nominee. A memo retained at BCCI's Abu Dhabi office states "Under the arrangement with his excellency Sheikh Kamal Adham, a major shareholder of CCAH, a short term loan of US\$ 20 million was disbursed to CCAH by BCCI (Overseas) ltd, Grand Cayman." It would appear that Clifford and Altman should have had direct knowledge of any CCAH loan request.

- 19) Investigative Interviews Pursuant to its order of investigation, Federal Reserve investigators have conducted a wide variety of interviews. One of the most telling may have been with a former FGB insider who was intimately involved with the 1982 takeover of FGB by CCAH. The memorandum of interview completed by Federal Reserve Board investigators stated, "When we discussed the FED's theory that BCCI took control of FG through nominees he (the interviewee) said 'you're right ... but how are you going to prove it."
- Subordinated Debt Telephone messages retained in BCCI's Abu Dhabi offices indicate that in mid 1988 the Federal Reserve was requiring that between \$15 and \$20 million of capital be injected into FAB. A May 10, 1988 phone message states: "Mr. Altman suggests that CCAH borrows the above amount (\$15-\$20M) from its shareholder(s) or from BCCI ..." Further a June 20, 1988 phone message to Naqvi states: "Mr. Robert Altman

telephoned, he has to raise \$15M before 30th June 1988, he wishes to speak to you, today if possible." Several days later Imran Iman of BCCI responds with a fax which states: "Reference our recent telephone conversation.

The mode suggested is along the following lines: CCAH could issue floating rate notes (FRN) for 10 years, for an initial amount of US\$ 15 million. The coupon rate is to be 2% above three months Libor (SIC). Initially, the entire issue would be purchased by Credit and Finance Corporation (one of our subsidiaries) for a period of one year. On June 28, 1988, CCAH issued \$20 million in subordinated debt the entire issue of which was bought by Credit and Finance Corporation.

21) Management Direction from BCCI to CCAH -- Contrary to assertions from Altman and Clifford that BCCI did not direct board members of CCAH, staff discovered documents which indicate that BCCI officials were involved with the affairs of CCAH even to the extent that BCCI would draft letters from CCAH to independent auditors. A January 22, 1987 memo from Imran Imam (of BCCI's central office) to Mr. J.G. Lesher (of Clifford and Warnke) stated, "Enclosed are copies of the letter received from ADIA [Abu Dabi Investment Authority], and a draft reply to the letter. I shall appreciate if you would have the draft typed on CCAH letter-head after consulting Mr. Altman, and courier the letter to me to

be sent by hand to ADIA."

The draft letter referenced above was dated "January, 1987," and it was addressed to Ernst & Whinney, Abu Dhabi, U.A.E. The final copy of a virtually identical letter was later sent on CCAH letterhead to Ernst and Whinney (Abu Dhabi), dated January 27, 1987, and it was signed by Robert Altman.

Several documents show BCCI's direction of CCAH
affairs. For example, on September 21, 1984 Imran Imam
sent a telex from London to Mr. G. Lesher, representing
CCAI, stating, "Kindly arrange for CCAI to pay the sum
of USDLRS 25,573.- to the investors and advise Mr. De
Raaff to pass the appropriate entry in the sundry
creditors account of CCAI."

Also, on April 30, 1984 Mr. Imran Imam sent a letter to Mr. Kees DeRaaff, Equity Trust Company, The Netherlands, stating, "I refer to my telex of 27th April and request you to forward all future invoices to Mr. G. Lesher of Clifford and Warnke in Washington, with relevant copies to the undersigned. I would be thankful if future invoices carry complete narration of the expenses that are incurred by the two Companies, irrespective of whether the invoices [SIC] from Ernst & Whinney or Equity Trust." A copy of the letter was

sent to Mr. Lesher with a handwritten note from Mr.

Imam: "This has reference to our conversation.

Regards, Imran Imam." This appears to demonstrate direct BCCI control over CCAH's affairs.

- Historical statements Clifford and Altman as well as the Arab investors made a variety of statements pursuant to CCAH's 1980 application to acquire Financial General concerning the commitment that the Mid-east investors would be passive investors.

 Regulators are re-examining these statements to determine if they involved intentional misrepresentations. Such statements include:
- a. Board hearing of April 23, 1981; statement of Clark Clifford:

"This investment on the part of these gentlemen can best be described as a passive investment. They do not intend to interfere with the operation of this property. They do not intend to sit on the Board of Directors. They do not intend to instruct the managers of Financial General or of the bank, how to conduct their business. They think it is an excellent investment. These investors are not bankers. They are businessmen. They do not feel qualified to operate banks or to give instructions as to how banks are to be operated. What they do wish to do, and what their plan is, to get the right people in to operate the property."

b. Board hearing of April 23, 1981; statement of Kamal Adham:

"I am aware that the staff of the Federal Reserve has generally questioned what managerial philosophy and approach we envision for Financial General and its subsidiaries if our tender offer is successful. Let me be clear on this point. The other members of the investor group and I have no intention of operating Financial General ourselves, setting policy for the company, or sitting on its Board of Directors. We consider this company to offer an attractive investment opportunity, but it is regarded entirely as a passive investment."

c. Board hearing of April 23, 1981; statement of Abdul Khalil:

"As Mr. Clifford and Sheikh Adham have advised you, I have no intention of taking any active part in operating this property, setting banking policies, or becoming a member of Financial General's Board of Directors."

d. Board hearing of April 23, 1981; statement of Sayed Jawhary:

"As Sheikh Adham has made clear about the intentions of our investor group, I do not intend to be involved in the affairs of Financial General personally. Instead, I shall rely on the expertise and judgment of the new management team and the new Board."

e. Board hearing of April 23, 1981; colloquy between Mannion and Clifford:

"Mr. Mannion: You do not envision Senator Symington being subject to opposing pressures by the individual investors whereby 50 percent would ask that he vote one way and 50 percent ask that he vote another way or some other proportional holding?"

"Mr. Clifford: It is inconceivable to me because of the understanding and even commitment that we have with the shareholders as to the manner in which they intend to treat the investment. They have informed us. We have proceeded on that assumption. They have abided by it. But [sic] they remain the passive investor, and that we will continue on with our task, replacing certain persons on the Board."

f. Letter of May 1, 1981 from Altman to Mannion, responding to questions submitted by Sidney Bailey, Virginia Commissioner of Financial Institutions: "Question No. 21: It is assumed that the investors will retain control, directly or indirectly, over major policy-making functions. Should such policies as may be adopted prove detrimental in some respect to FGB and its subsidiaries, under what circumstances and to what extent will the sources of policy be accessible and amenable to regulatory agencies?"

"Answer No. 21: The question proceeds from an erroneous assumption. The Investors do not intend to direct policymaking or to establish major policies within Financial General, or its subsidiaries, after the acquisition has been completed. The sources of bank policy are to be the Boards of Directors and the management of each of the subsidiary banks with supervision by the management and the Board of Financial General."

g. Letter of May 11, 1981 from Altman to Mannion, responding to questions submitted by New York State Senator Manfred Ohrenstein:

"Question No. 7: What guarantees do the depositors and borrowers of Financial General Bankshares' two New York banks (Bank of Commerce and Community State Bank) have that this foreign cartel will exercise the same sound fiduciary judgment they have been accustomed to in dealing with these banks?"

"Answer No. 7: There is no 'foreign cartel' involved in this transaction. There is merely a group of investors who believe that the acquisition of Financial General is a sound investment. They do not intend to sit of the Board of Directors of Financial General or its subsidiaries, or to establish bank policies, or otherwise to operate the Company. The Financial General Board of Directors is to consist of able and distinguished Americans, and the new President and Chief Executive Officer of Financial General will be an outstanding and experienced commercial banker."

National Bank of Georgia

BCCI orchestrated the purchase of the National Bank of Georgia by a BCCI nominee from Bert Lance and arranged for its subsequent sale to CCAH/First American through a complex transaction designed to hide BCCI's interest from Federal Reserve scrutiny.

In 1977 due to severe financial problems Bert Lance sought to sell his interest in NBG. BCCI President Aga Hasan Abedi arranged for Lance to be bought out of NBG by BCCI shareholder and nominee Ghaith R. Pharaon. Pharaon paid double the market price for the stock and bought 60% of Lance's shares. Abedi also arranged a \$3.5 million credit line for Lance to repay other Lance debts. The affairs of NBG became completely dominated by BCCI over the next several years.

In 1986, Pharaon himself was experiencing financial difficulties. Federal investigators believe that BCCI made a decision that NBG had to be taken out of Pharaon's hands so that the franchise would not be attached by Pharaon's creditors. At this time FAB expressed interest in purchasing NBG.

Because Georgia interstate banking laws would not have legally permitted FAB's acquisition of NBG, it was necessary to structure a complex series of financial arrangements in order to complete the sale. As discussed above, Clifford and Altman both sent memos to BCCI indicating that the transaction should be structured so as not to invite unwarranted federal scrutiny of the link between BCCI and CCAH. The transaction began with a CCAH rights offering which was funded by loans to the investors

²⁰ Regardies, May, 1990.

from BCCI. CCAH ended up with \$154 million which was then transferred to an account at BCCI's Grand Cayman branch.

An agreement was then reached whereby Pharaon would receive \$220 million for the sale of NBG. [This money would presumably be used to pay off Pharaon's creditors, including BCCI] The \$220 million was funded through a series of complicated transactions.

On December 18, 1986 CCAH paid Pharaon \$80 million for an option to buy NBG that expired June 20, 1988. [CCAH could not directly acquire NBG due to Georgia law] Later on January 19, 1987, BCCI granted Pharaon a \$140 million loan presumably to provide the remaining portion of the \$220 million purchase price. The loan matured on the date that CCAH exercised its option at a price of \$140 million. Pharaon secured the BCCI loan and the CCAH option agreement by pledging his NBG shares. BCCI held the shares as pledge agent.

BCCI documents retained in Abu Dhabi indicate that concerns were raised that the transaction could cause Federal Reserve scrutiny if it were presented as an "integrated" transaction.

It appears that Altman wanted the NBG shares pledged to both BCCI and CCAH as a device to evade Federal Reserve review. A December 4, 1986 memo from S. Malik, BCCI legal division to S. Naqvi states:

The reason for having two Pledge Agreements is that Mr. R. Altman feels that in the previous Pledge Agreement, the references to 'Loan Agreement' would have given the Federal Reserve cause to see the 'Loan Agreement'and

possibly decide that an "intergrated transaction" was being entered into. Whereas now, with the two Pledge Agreements, the Federal Reserve will only see the Option Pledge, which contains no references to the Loan Agreement.

Further, a memo dated December 23, 1986 from Saleem Malik of the BCCI Legal Division to Swaleh Naqvi states that: "After consultation with Mr. Altman and Millbank Tweed, they advised that the Loan agreement be signed and dated in mid-January or early February 1987, as by then a reasonable period will have elapsed since signing the Option and the "integrated transaction" argument would not be successful. Accordingly, I hope to return to New York next year and have the Loan and Pledge Agreements executed ..."

Subsequently, the documents were executed, as described in the December 23, 1986 Malik memo, and Georgia law was modified through the efforts of lobbyists on the NBG payroll to permit CCAH to acquire NBG. CCAH used the monies obtained from the BCCI-funded 1986 subscription to purchase NBG in August, 1987. Pharaon paid off his loans to BCCI and NBG was safe from his creditors.

BCCI's Links with Centrust Savings

BCCI had significant Centrust ties through the relationship of BCCI front man Ghaith Pharaon and David Paul. Pharaon in 1986 sought to purchase securities of Centrust that would have given him a 28% ownership interest in the thrift. However, Pharaon reduced his purchase to slightly under 25% so as to avoid a

presumption of control. Documents discovered in London by BCCI auditors indicate that BCCI financed this acquisition of Centrust shares.

Paul and Pharaon began a business and personal relationship some time in the mid-1980's and records indicate that the two acted as virtual partners. Examples of Pharaon's links to Centrust include:

- Intervention with the Federal Home Loan bank Board on 1.) Centrust's behalf. Pharaon had meetings with the Chairman of the FHLBB as well as senior regulatory officials in Washington concerning Centrust. Pharaon was seeking favorable treatment for the thrift from the regulators. Additionally, Pharaon or his attorney, Charles Jones had at least four meetings with regulatory staff of the Federal Home loan Bank of Also, Charles Jones attended meetings with Atlanta. Atlanta officials to discuss Centrust examination findings. This appears to be highly unusual behavior for an individual that is supposed to be a passive shareholder. Moreover, in one meeting with Atlanta officials Pharaon gave the 1986 National Bank of Georgia sale to FAB as an example of how he had the resources to recapitalize an institution. The implication appears to have been that Pharaon either had the personal resources or the ability to find a buyer for Centrust to bring fresh capital to the institution. It should be noted that regulators now believe that BCCI provided the capital to FAB for the NBG acquisition.
- 2.) Pharaon in conjunction with BCCI participated in a scheme with Centrust whereby \$25 million of Centrust junk bonds were "parked" with BCCI subject to a buyback arrangement. The junk bonds were part of a \$150 million offering underwritten by Drexel Burnham Lambert. This transaction permitted Centrust to present a more favorable capital position to regulators during the 1988 examination. This "parking" scheme has been referred by the regulators to the Department of Justice for possible criminal prosecution.

- 3.) Documents indicate that at one time Paul and Pharaon had an agreement where Centrust would acquire 50% of Pharaon's insurance company. Paul and Pharaon appear to have had a definitive signed agreement but ultimately had to withdraw from the deal because regulators would not approve the transaction. It is interesting to note that certain correspondance between Pharaon and Paul are copied to BCCI. It is unclear why this was done.
- 4.) Paul and Pharaon jointly looked at several Florida and Georgia based banks and thrifts. Pharaon had additional meetings with regulatory officials in Atlanta concerning these acquisitions. This was over a time period that documents recovered from Abu Dhabi indicate that BCCI was actively looking for acquisitions in Florida.
- 5.) Based on CenTrust records, Paul and Pharaon appear to have been in personal or phone contact on an almost daily basis beginning in 1986. The amount of contact involved appears highly unusual for a "passive" shareholder. The two businessmen regularly vacationed with each other and were jointly pursuing several business deals around the world.
- 6.) The FHLBB examiners also believed that Pharaon had submitted phony offers on certain real estate held by Centrust with the intent of reducing the accounting losses that Centrust faced on the properties. Correspondence also indicates that at one time Pharaon was negotiating for the Centrust Tower, although it remains unclear if these negotiations were serious.
- 7.) A joint real estate project that Paul and Pharaon were considering that they called the "LA Soap Company land deal" indicates potential Centrust ties with BCCI affiliate Independence Bank. A February 9, 1988 memo from Pharaon employee Farid Djouhri to David Paul discussing the real estate project closes with the sentence, "Please note that Independence Bank said it wants to participate in this transaction."

Additionally, links exist between CenTrust and First
American. Documents indicate that David Paul and Ghaith Pharaon
met with Robert Altman at First American Bank directly before
meeting with the FHLBB Chairman on June 24, 1988. Paul and
Pharaon met with the FHLBB Chairman to seek regulatory

forbearance for CenTrust. Paul had previously met with NBG personnel who continued working for the bank after it became FAB of Georgia. Interestingly, it appears that either Paul hired certain FAB employees or Centrust was using FAB to conduct a due diligence investigation of Charles Keating's Lincoln Savings. Pursuant to the due diligence, a decision was made that Lincoln was not an attractive acquisition candidate.

Finally, documents retained at BCCI's Abu Dhabi office reflect minutes of a meeting that occurred October 2, 1989 between BCCI personnel and members of the law firm of Clifford & Warnke including Clifford and Altman. The minutes indicate that Clifford listed Centrust as one of several institutions "who have expressed their interest in the merger with FAB." No indication exists that FAB went any further in this interest, but it should be noted that documents indicate that FAB and BCCI had been looking for Florida acquisitions since 1986.

BCCI acquisition of Independence Bank

The Fed alleges that BCCI, through Ghaith Pharaon, a major shareholder and customer, secretly acquired the \$400 million Independence Bank of Encino, California. In 1985, Pharaon purchased the California bank for \$23 million. Based on telexes, regulators believe that BCCI funded the acquisition and then went to considerable length to conceal its involvement. One telex

reveals that BCCI transferred \$8 million for the acquisition to Pharaon's account in Lamarche's BAII. 21

Once the bank was acquired, BCCI took an active role in selecting Independence Bank's new management. Kemal Shoaib, a longtime BCCI employee, was appointed Chairman. While serving as Chairman, Shoaib continued to receive pension benefits and a subsidized mortgage from BCCI. Under his direction, deposits increased from \$250 million to \$1 billion. This growth was fueled by a heavy reliance on brokered deposits. The bank, in turn, invested heavily in real estate development. After receiving approval from California regulators, Independence Bank undertook numerous direct investment projects. Regulators now believe that the bank's investments went well beyond its legal limits.

Also, it is apparent that BCCI believed that Indpendence
Bank was part of its banking family. In a letter to Abedi from
Louis E. Saubolle, a BCCI employee in BCCI's California office,
Saubolle discusses the potential acquisition of American Asian
Bank. The letter states that "this bank (American Asian) and its
network is a perfect compliment to the Independence Bank and the
two will give us a base for future expansion throughout
California as well as into Western American states."²²

Federal Reserve Notice of Charges.

²² Letter from Louis E. Saubolle to Agha Hasan Abedi, October 22, 1985.

BCCI Money Laundering in Florida

In 1987, during the course of an undercover operation investigating narcotics trafficking and money laundering, Customs agents were directed to three BCCI offices in Florida: Tampa, Boca Raton and Miami. These BCCI offices laundered millions of dollars for the agents up until arrests were made and indictments were handed down in October of 1988. In September of 1988 in a taped conversation between Amjad Awan, a BCCI-Miami bank officer, and an undercover Customs agent, Awan made the following statements:

"Last Friday, I was told that, ah, our lawyers, Mr. Altman was there, and he suggested to the bank that I should be immediately transferred from the U.S. to Paris. So, they duly transferred me on Friday to Paris." [In response to an attempt by a Senate Committee to subpoena Awan]

"Our attorneys, are, they're heavyweights, I mean Clark Clifford is, is sort of the Godfather to the Democratic Party. Uh, you know, he's been the Secretary of State [sic], he's been Secretary of Defense. He's been in the White House since the time of Truman. He was Truman's legal counsel. He's like 80 years old, but he's all there. That's a very heavyweight firm."

"We own a bank in Washington, its called First American.

The holding company is in Washington, and there are 5 banks actually. First American of New York, D.C., Virginia,

Maryland, Tennessee and Georgia. There's 6 banks, 6 large banks, they are \$10 billion dollar banks. Bought out by BCCI about 8 years ago. Ostensibly in the name of some Arabs, who also happen to be our chairmen. And, BCCI was acting as our advisor to them, but truth of the matter is that the bank belongs to BCCI. Those guys are just nominee shareholders." 23

The indictments in the BCCI case led to the conviction of five BCCI employees in Florida and two in the U.K. One individual has been extradited from England and is awaiting trial in Florida. BCCI also had to forfeit \$14 million seized in Florida. To date, this is the largest forfeiture or fine obtained against a financial institution.

all of the legal fees for the defense of BCCI and its employees were paid out of a Clifford & Warnke firm account at First American Bank. Wire transfer and account records from FAB indicate that over \$22 million was sent to the Clifford & Warnke account to pay for BCCI's legal defense in the money laundering case. It is estimated that over \$30 million was spent by BCCI to defend the bank and its employees. Altman flew to Paris in 1990 to inform the BCCI Board of Directors about the BCCI (Florida) plea bargain and a cease and desist order included in that agreement.

Justice Department transcript of conversation between Robert Musella, Customs undercover agent, and Amjad Awan, BCCI employee employee, September 9, 1988, Miami, Florida.

Political/Charitable Activities of BCCI

BCCI's practice of gaining legitimacy through political contacts and charitable contributions was also applied in the United States. Shortly after leaving his post as U.S. Ambassador to the U.N., Andrew Young was approached by BCCI to provide names of potential customers in southern Africa and Central America. In return, BCCI promised to give Young's trading company, Andrew Young Associates, an annual retainer of \$50,000. In the early 1980's, the firm took out a \$74,000 term loan and a \$125,000 line of credit with NBG. An October 1983 internal loan review of the two credits reveals:

Andrew Young Associates, Inc. is a small illiquid, unprofitable, infinitely leveraged company which has not yet achieved the revenues levels [sic] that it had expected. As a result of the aforementioned and NBG's under-collateralized position, the analyst believes that unwarranted credit risk may have been undertaken in extending credit to the company.

In August of 1985, the credits were put on NBG's past due list. Shortly after this, BCCI took over the firm's line of credit and increased it to \$175,000. In early 1989, the outstanding balance of \$160,000 was forgiven by BCCI. Mr. Young's partner, Stoney Cooks, contends that BCCI had not paid the trading company its annual retainer and that forgiving the loan was payment for past services.

State politicians also benefitted from BCCI's largesse. In 1987, BCCI wanted to purchase the National Bank of Georgia from Pharaon. The acquisition was prohibited by a Georgia reciprocal banking law that did not include Maryland and Washington D.C.,

where First American operated. BCCI paid two Georgia lobbyists, one being Pharoan's lawyer, \$1.25 million to get the state law changed. The legislature subsequently voted to include Maryland and D.C. The U.S. Attorney in Atlanta is currently investigating allegations that Georgia legislators accepted favors in return for voting for the bill.

In 1982, Bert Lance introduced Abedi to former President
Jimmy Carter. After this meeting, Carter's world charity
organization, Global 2000, would receive \$8 million from BCCI and
\$2.5 million from the Abu Dhabi Investment Authority which
controls BCCI. The Carter Center at Emory University also
received \$800,000 from Abedi. In 1986, Carter and Young traveled
on Abedi's personal 727 on a five day tour of Africa.
Furthermore, Carter and Young knew Abedi personally and were
invited to his elaborate parties on his estate outside of
Savannah.

Involvement of the Federal Agencies

BCCI was able to circumvent Federal Reserve Board restrictions involving the purchase of a number of American banks and was able to disguise its ownership for over 10 years. The bank fraudulently hid huge losses and even outwitted a multinational group of regulators that was organized several years ago to try to get a clearer picture of the bank's activities. BCCI was not shut down until July 5, 1991. At the time of the bank's closing, the Bank of England stated that "the

culture of the bank is criminal." Questions arise as to why U.S. regulatory and law enforcement agencies did not act sooner.

The Federal Reserve

The 1978 application and the subsequent litigation involving the purchase of Financial General revealed that the investors owned BCCI stock, relied on Agha Hason Abedi for guidance and had outstanding loans to BCCI. Internal Bank of America documents entered into evidence in the 1978 SEC case alleged that BCCI made millions of dollars in high risk loans to insiders. The SEC was also aware that Adham and Fulaij had received bribes to facilitate aircraft purchases in the Middle East. A Pakistani government document from the 1978 SEC case detailed cash payments by Abedi of more than \$2 million to Pakistan's Prime Minister. BCCI's reputation was sufficiently tarnished by the late 1970s such that B of A sold its 30% share in the bank and most major European banks refused to do business with BCCI. Also in the late 1970s, the Bank of England refused to grant BCCI a fullservice banking license (because the bank officials would not produce records justifying rapid growth) and the New York bank superintendent blocked efforts to acquire the Chelsea bank.

The Fed approved the Arab investor group's second application in 1981 after an extensive investigation and a hearing. It had not changed markedly from the 1978 application except for the promise that BCCI would not be the financier for any Financial General shares and the personal assurances of

clifford and Altman that the investors were men of high integrity and were not fronts for BCCI. Federal Reserve officials maintain that there was nothing concrete that would have justified denying the application. They maintain that although there was not a requirement that the investors had to be certified as persons of good character, the standard was that they had to find that the applicants were not disreputable. A major factor in the approval of the application appears to be the assertions of Clifford and Altman that BCCI would have no role in the financing or the management of the bank.

The first time that the Federal Reserve became aware of possible illegal activity in BCCI was on April 22, 1987 during an examination by the Atlanta Reserve Bank of BCCI's Miami agency. On May 15, 1987, the Atlanta Reserve Bank made a criminal referral to the U.S. Attorney in Tampa and the FBI concerning money laundering at BCCI's Florida agencies. On June 5, 1987, the Federal Reserve Board staff sent the May 15 criminal referal to the IRS.

In September of 1988, the Board staff was asked to provide assistance to a Tampa IRS agent investigating money laundering in BCCI's agencies. The agent declined to do the paperwork to obtain a detailed Fed employee because of the workload associated with the planned arrest and indictment of the BCCI suspects in early October. After the BCCI indictment on October 9, 1988, Federal Reserve and State authorities coordinated the examination

of all of BCCI's U.S. agencies. The Atlanta and New York Reserve Banks found evidence of money laundering in BCCI's New York and Boca Raton agencies.

On October 19, 1988 the Fed staff discussed the BCCI indictment with the Bank of England. Regulators in Hong Kong and the Cayman Islands were also contacted. Fed staff also met with BCCI representatives regarding the asset seizure and the indictment on October 20. On October 25 the Atlanta Reserve Bank discovered additional evidence of money laundering in the Boca Raton agency and made a criminal referral to the U.S. Attorney for Miami. On October 31, 1988, the New York Reserve Bank and the New York State banking regulator made criminal referrals regarding BCCI to the U.S. Attorney in New York and Tampa.

In November of 1988 the New York Reserve Bank sent a letter to the Miami U.S. Attorney regarding money laundering in BCCI's Boca Raton office. The New York Reserve Bank also briefed Assistant U.S. Attorneys, FBI agents and IRS agents in the Southern District of New York concerning BCCI money laundering. The Reserve Banks subsequently reported the findings of the coordinated examinations to the Federal Reserve Board staff, which then began drafting cease and desist orders against BCCI for violations of the Bank Secrecy Act.

During the late 1980s, because of perceived irregularities in the European branches of BCCI, a "college of supervisors" was

created to try to gain a more accurate picture of BCCI operations. The college consisted of bank regulators from England, the Cayman Islands, Luxembourg and several other European countries. The college attempted to create a consolidated picture of BCCI. Because BCCI's American operations were thought to be limited to several non-deposit-taking agencies, the Federal Reserve did not participate in the college.

The question of the possible control of First American by BCCI was first raised on December 27, 1988. An IRS agent in Tampa, David Burris, contacted a Fed staff member, William Ryback, for information on the 1980 CCAH application and hearing. Burris also asked Ryback a hypothetical question as to what the Fed would do if four or five witnesses would testify that they heard from BCCI officials that BCCI owned First American Bank. Ryback responded that documentary evidence would probably be needed before the Fed could act. On December, 29, 1988, a Richmond Federal Reserve staff member received a call from a reporter inquiring about the ownership of First American. The reporter referred to an affidavit filed by an FBI agent that quoted a BCCI employee.

In January of 1989, the Richmond Reserve Bank conducted a special investigation of BCCI and CCAH. All of the First American Banks were asked to report on transactions with BCCI. CCAH management was also questioned on BCCI links. The Richmond

Reserve Bank filed a report one month later stating that no evidence was found of irregular or significant contacts between BCCI and First American. The report also found no evidence that CCAH failed to adhere to its commitments.

On May 2, 1989, the Tampa U.S. Attorney subpoenaed the records relating to BCCI and CCAH. On May 31, Board staff met with Tampa prosecutors. The prosecutors did not divulge any of the content of the transcripts involved in the then pending BCCI prosecution. The Fed staff agreed to return to Tampa when the criminal investigation was completed.

On June 2, 1989 the Federal Reserve Board asked the Reserve Banks to conduct coordinated safety and soundness examinations of all BCCI offices.

On June 12, 1989, the Tampa U.S. Attorney subpoenaed records involving BCCI, CCAH, NBG, First American and Independence Bank from the Reserve Banks at Richmond, Atlanta and San Francisco.

On August 17, 1989, an Assistant District Attorney from New York County told the New York Reserve Bank about an unnamed informant's report that BCCI controlled First American and that BCCI was inadequately capitalized. The Assistant D.A. did not provide any further information. In August and September, the New York Reserve Bank investigated the allegations involving First American and BCCI.

On October 5, 1989 at a meeting in Switzerland, a Fed staff member asked the Luxembourg bank regulator about BCCI and CCAH. The Luxembourg supervisor responded that there had been BCCI loans to CCAH shareholders since 1985. Following upon this, on December 13, 1989, William Ryback wrote to Altman and requested information on any BCCI loans to the original or subsequent investors in CCAH. Altman responded on February 5, 1990, stating that he did not have access to the requested information and attached a Naqvi letter stating that no CCAH shareholder had borrowed from BCCI or used CCAH stock as collateral.

On January 16, 1990 the Tampa prosecutors sent a copy of the BCCI plea bargain to the Federal Reserve. The Fed was not sent earlier drafts or given an opportunity to comment. BCCI pleaded guilty in Tampa on February 5, 1990.

On February 7, 1990, Fed staff and New York Reserve Bank staff met with IRS investigators in Tampa. The IRS agents state that they believed that CCAH and BCCI were part of the same corporate family. The agents also stated that the BCCI employees that supplied this evidence may be of questionable veracity. During March and April of 1990 Fed staff attempted to contact an IRS informant but was unsuccessful.

First American continued to maintain its independence from BCCI. On March 15, 1990, a letter from Kamal Adham to Altman is

forwarded to the Fed. The letter states that Adham's shares were not financed by BCCI. On May 8, 1990, Fed staff met with Altman. Altman again denied any tie between BCCI and CCAH. Continuing the investigation, on May 11th the Cayman Islands regulator was contacted about BCCI and CCAH shareholders. The Cayman supervisor stated that he did not have any records indicating a relationship between CCAH and BCCI.

On June 6, 1990, the Fed received Price Waterhouse BCCI audits from the Bank of England. This is the first credible source that indicates that nominee arrangements might exist.

On June 11, 1990, BCCI sent a letter to the Federal Reserve Board stating that it intended to close all U.S. BCCI offices except New York. On June 12th the New York Reserve Bank suggested BCCI cease all operations in the U.S. On July 11th BCCI was instructed not to shift any assets to the New York agency without prior notice.

On June 27, 1990, the Federal Reserve and the New York
County DA's office reached an agreement on the sharing of
information regarding BCCI. From August 1990 until the present
Federal Reserve staff has been meeting with New York State
prosecutors. (The New York D.A. indicted BCCI on July 29, 1991,
and also charged Abedi and Naqvi.)

From August 1990 through November 1990, the Federal Reserve

continued its efforts to obtain documents from BCCI and from Luxembourg regarding CCAH shareholders. In late October, the Fed was told by the New York D.A. that a confidential Price Waterhouse report confirmed BCCI control of First American. On November 26, 1990, during a meeting with the Fed, BCCI counsel objected to the sharing of the Price Waterhouse report.

However, on December 10, 1990, a Fed staff member was able to review the Price Waterhouse report in London. The report indicated that there were a number of outstanding, non-performing loans made to CCAH shareholders. The report also stated that BCCI held the CCAH stock as collateral. On December 21, 1990, Fed staff met with BCCI counsel. The Fed was informed that investors in Abu Dhabi had purchased 77% of CCAH stock and that BCCI counsel discovered that substantial amounts of CCAH stock have been pledged to BCCI as collateral for non-performing loans. Also on December 21, the Fed received a letter from Altman clarifying his response to the December 13, 1989 letter from Ryback. Altman stated that he became aware that in 1986 M. Hammoud used CCAH shares as collateral for BCCI borrowings. Altman again neglected to mention his and Clifford's borrowings from BCCI.

In early January of 1991, the Fed obtained information from BCCI counsel that eight CCAH shareholders had outstanding loans of \$1.7 billion, secured by the CCAH stock. The Federal Reserve Board ordered a formal investigation on January 2, 1991. On

January 10 the Fed staff met with Justice Department officials concerning BCCI. On January 14, all CCAH records in the U.S. were subpoenaed by the Fed. BCCI counsel met with the Fed staff to describe documentary material in BCCI's files relevant to the nominee arrangements. On January 22nd, the Fed sent a proposed cease and desist order to BCCI and made criminal referrals to the Justice Department.

During late January of 1991 the Fed staff met with the .

Justice Department and the federal and state bank regulators to brief them on the BCCI. During February and March witnesses were interviewed and deposed. On March 4, 1991 the Fed and the New York Banking Department issued an order requiring BCCI to divest its interest in CCAH.

From March 14 - 21, 1991, Fed staff interviewed witnesses and obtained documents in Abu Dhabi. On March 27, the Richmond Reserve Bank notified First American Bank of New York that its relationship with BCCI must be terminated by the end of 1991.

On April 3, 1991, the Fed sent a proposed cease and desist order to Independence Bank. Discussions were held with the FDIC San Francisco office regarding relationships between Independence Bank and BCCI. On May 7, 1991, the Fed and the California Banking Superintendent issued an order requiring the divestiture of Independence Bank. The Fed also made criminal referrals to the Justice Department regarding the National Bank of Georgia and

Independence Bank.

On July 5, 1991, all BCCI offices in the U.S. were seized. On July 12th, the Fed issued a notice against four individuals associated with the acquisition of Independence Bank by Pharoan. The D.C. U.S. Attorney requested a deferral of civil money penalty action against the individuals. On July 25, 1991 the Fed staff met with Justice officials and the D.C. U.S. Attorney. On July 29, 1991, the Fed issued a notice against BCCI and nine individuals to prohibit them from engaging in the practice of banking in the U.S.

The Federal Reserve appears to have acted in a timely manner to investigate suspicious activity starting in 1987. Could the Fed have done a better job ten years ago investigating the investors in Financial General? Did it simply rely on the assurances of Clifford and Altman? The circumstances surrounding the 1980 application indicate that the Fed examined the financial statements of the investors, but did not consider other relevant information. One of the weaknesses of the application process is that the Fed does not have the direct access to certain information, especially intelligence data, that is routinely available to other federal agencies. It should be noted that the nominee arrangements for the ownership of First American were kept hidden by Abedi and Naqvi until the records were seized pursuant to a search warrant by the Bank of England. retrospective analysis of the 1980 application indicates that the Fed may have placed too much reliance on the assertions of

Clifford and Altman.

The Treasury Department/Customs Service

The former Customs Commissioner, William von Raab, has alleged that the BCCI plea bargain was too weak and that BCCI escaped further scrutiny after the 1988 Florida money laundering indictment because if its "influence team working up and down the Eastern seaboard." Robert Mazur, the former Customs agent who taped conversations with Amjad Awan, is said to have urged his superiors in Customs to pursue the allegations of BCCI control of First American. Mazur has since left Customs and joined the DEA.

A Minority staff investigation in Tampa, Florida, did not uncover any evidence to substantiate these allegations. The Assistant U.S. Attorney that handled the BCCI plea bargain appeared to have obtained the best possible deal for the government. Because of the court in which the case was pending, if the case had gone to trial a much smaller fine than \$14.7 million was likely. Additionally, the first count in the indictment, the conspiracy to traffic in narcotics, was likely to be dismissed by the judge because the only evidence to prove that count was money laundering. (In the later trials of the six BCCI employees, the same conspiracy counts were dismissed by the court.) Officials in Florida stated that there was no evidence of influence peddling and that Clifford and Altman were not part of the plea negations or the court appearances. Furthermore, Customs officials deny that Mazur ever requested an additional investigation of BCCI or that there were inadequate resources to

investigate BCCI. Customs officials indicated that the First American ownership question was referred to the Federal Reserve as the proper federal authority to conduct the investigation.

One dissenting voice found in Tampa was the former U.S. Attorney, Robert W. Merkle. Merkle had left office prior to the BCCI indictment but he indicated that he would have pursued BCCI more aggressively, possibly indicting the bank under RICO.

Conclusion

This preliminary report summarizes BCCI's activities in the United States, and specifically focuses on the actions of Mr. Clifford and Mr. Altman vis a vis First American Bank and BCCI. Having reviewed thousands of documents related to First American and BCCI, the minority staff is dismayed that Mr. Clifford and Mr. Altman were unable to discern BCCI's ownership of First American. The report notes BCCI was clearly a bank which engaged in massive deception of U.S. regulatory authorities in a number of areas, such as ownership, money laundering, etc. Yet many questions during this investigation remain unanswered.

Unquestionably; future hearings and further investigation of BCCI are warranted.



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BOARD OF GOVERNORS FEDERAL RESERVE SYSTEM EXHIBIT

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THE SITUATION OF ACQUISITION OF FGB IS AS FOLLOWS:-

- 1/2 (SEVENTEEN AND ONE HALF) PER CENT SHARES, THIS ARCLUDES

 JHARES OF GEN. OLMSTEAD'S FAMILY ABOUT 4.5 PERCENT. THE

 AVERAGE COST FOR 13 1/2 PERCENT SHARES AS ABOUT 12.75 AND OF

 THE GOS SHARES IS 15.
- SESIDES MR. JACK STEPHENS AND MR. METZGER HAVE ABOUT FREGENT SHARES, WHICH WE CAN BUY NOW OR LATER. IN ANY EVENTOTHE MILL GO WITH US. FOR THIS PURPOSE THE STEPHENS GROUP IS NOW ENOKEN UP, THE MEMBERS HAVING EITHER SOLD THE SHARES OR BEING NON COMMITTED.
 - . THIS BRINGS OUR ACTUAL STRENGTH TODAY TO ABOUT 23/24 PERCENT.
- . MR. CASEY HAS A BLOCK OF 8.6 PERCENT ABOUT SALE OF WHICH HE IS STILL UNDECIDED, OF THIS HE HAS GIVEN A CONTINUING PROXY OF SUBSTANTIAL NUMBER OF SHARES TO MR MIDDENDORF. OUR FREIND HAD A TALK WITH HIM AND CAME BACK WITH A FEELING THAT MR CASEY WILL NOT GO TO THE OTHER SIDE. HOWEVER THIS BEING CRITICALLY IMPORTANT TO US, I HAVE REQUESTED OUR FRIEND. TO CONFIRM IT IN OUR FAVOUR BY A PROXY OR ON TO PURCHASE AT A PRICE.

THE CONTESTING GROUP OF SAUL AND MIDDENDORF AND FRIENDS HAVE CLOSE TO 17.5 PERCENT. BESIDES THEY HAVE MANAGEMENT CONTROL. AS OF NOW THEY ARE IN A CONTESTING MOOD AND HENCE CASEY'S IMPORTANCE FOR US.

*

MATTER FURTHER

じじじょしご

- 7. IF THIS MEETING IS FRUITFUL OUR FRIEND WOULD IMMEDIATELY THEREAFTER TALK TO MIDDENDORF INFORMING HIM OF OUR STRENGTH AND ALSO OUR DESIRE THAT THEY GO ALONG WITH US EITHER BY SALE OF SHARES TO US OR ALTERNATIVELY COOPERATE IN OUR DESIRE TO MAKE A PUBLIC TENDER AND THE ANTECEDENT ARRANGEMENTS FOR PASSING ON CONTROL TO US.
- 8. IF MIDDENDORF AND SAUL AGREE TO SELL (AND THIS MAY BE AT A PRICE) WE NEED NOT GO FOR TENDER OFFER AND ACQUIRE MAJORITY BY BUYING SOME MORE SHARES FROM THE MARKET.
- 9. IF ON THE OTHER HAND SAUL AND MIDDENDORF DO NOT SENDAND ALSO
 DO NOT GO WITH US THEY WOULD CONTEST ANY POSSIBLE TENDER
 OFFER OR OUR ATTEMPT TO TAKE OVER MANAGEMENT CONTEST.
 THIS THEY CAN DO BY CONTESTING THE DESIRABILITY OF THE OUTSITION BY FOREIGNERS FROM THE POINT OF VIEW OF THANCIAL

AD OR MANAGERIAL ABILITY AND OR LOCAL SENTIMENT AGAINST
PASSING ON CONTROL TO A FOREIGN GROUP.

10. THIS WOULD BE APPARENT IF AND WHEN THEY TAKE THE STEP BY GOING THROUGH APPOINTMENT OF NEW DIRECTORS IN THETR MEETING OF FEB. 23RD NOTWITHSTANDING OUR NOTICE THAT THIS BE POSTPONED. NO DOUBT OUR ATTORNIES WILL ATTEND THE MEETING AND ASSERT OUR RIGHTS - AS APPROPRIATE

IN VIEW OF THE POSSIBILITY OF THIS CONTEST AND ALSO FOR PRESENTATION OF THE HOLDING COMPANY APPLICATION TO FED OUR FRIEND ADVISED THAT WE MAY REFAIN MR CLIFFORD AS CHIEF COUNSEL, THE PREPARATORY FUNCTIONS BEING HANDLED BY MR METZGER'S FIRMM;

ACCORDINGLY'I MET MR CLARK CLIFFORD AND EXPLAINED TO HIM OUR STRATEGY AND OUR GOAL. HE WAS HAPPY TO KNOW THE DETAILS AND HAS BLESSED THE ACQUISITION.

IN THE NEXT FEW DAYS WE WOULDSTART PUTTING TOGETHER MATERIAL 'R A TENDER OFFER.

Bertfance

IN VIEW OF OUR AQUISITION OF 17.5 PERCENT AND OUR DESIRE
TO KEEP INDIVIDUAL OWNERSHIP TO BELOW 5 PERCENT WE HAVE TO
DISTRIBUTE! THE OWNERSHIP TO 4 PERSONS OF SUBSTANCE. WE HAVE

ALREADY GIVEN THE NAMES OF SHEIKH KAMAL ADHAM AND MR.

SECURITIES AND EXCHANGE REGULATIONS WE ARE ALSO OBLIGED TO
REPORT TO COMMISSION AS WELL AS FINANCIAL GENERAL DETAILS
OF PURCHASERS. WE REQUIRE THEIR BIODATA AND POWERS OF ATTORNEY

FROM THEM. WE MUST HAVE THIS EARLY THIS WEEK TO AVOID POSSIBLE LIABILITY ON MR METZGER AND PURCHASERS. WE HAVE TO

BE CAREFUL THAT OUR NAME DOES NOT APPEAR AS FINANCIEF TO
MOST OF THEM FOR THIS ACQUISITION. THE NECESSITY OF PILIPS
THIS RETURN HAS ARISEN ON ACCOUNT OF CONCENTRATION OF THE NECESSITY OF PILIPS

5 PERCENT IN THE HANDS OF METZGER, HIS KNOWLEDGE AND OUR INTENTION TO ACQUIRE CONTROL.

14. I AM SORRY THE TIME SCHEDULE IS TIGHT AND MAY ENTITY OUT
VISIT OR OTHERWISE CONTACTING SHEIKH KAMAL AND AFFEW OTHERS.

I AM AWARE IT WOULD BE INCONVENIENT TO RUSH YOU BUT COULD THIS BE DONE DUR

583 ,3/5 3/4 DAYS AS THE MATTER IS OF SOME CONSEQUENCE TO US IN WASHINGTON.

REGARDS

Same Na BCCI employee

ABDUS SAMI

CORRECTION: PLEASE READ FOR THE LAST TWO BOTTOM LINES AS...

DONE DURING THE NEXT 3/4 DAYS AS THE MATTER IS OF SOME CONSEQUENCE TO US IN WASHINGTON.

REGARDS

BA' OM LONDON

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Sources of Payments to Clifford, Altman & Related Parties The BCCI Connection

Law Firm of Clifford & Warnke

- Pays Clifford as managing partner;
- 2. Pays Altman as partner;
- Receives fee income from representing Bert Lance during confirmation hearing in 1977;
 Receives fee income from representing Bert Lance in sale of 3.
- 4. National Bank of Georgia;
- Receives fee income from representing Credit and Commerce Holdings, Netherlands Antilles, (CCAH, N.V.) a foreign bank holding company that owns Credit and Commerce Investments 5. (CCAI);
- Receives fee income from representing CCAI, a Netherlands 6. foreign bank holding company that owns First American Corp.;
- Receives fee income from First American Corp., a bank holding 7. company that owns First American Bankshares;
- 8. earns fee income from representing Adham, Al-Fulaij, Mohammad in takeover of Financial General Bankshares in 1978-1982.

First American

- Pays the law firm of Clifford & Warnke (C&W) as main outside legal counsel for FAB;
- Pays Clifford as Chairman of FAB; 2.
- Pays Altman as Director and President of First American Corp., 3. the holding company for First American Bankshares;
- Pays Altman as Director of FAB-NY, FAB-Metro Corp, FAB-Georgia.

Bank of Credit and Commerce International (BCCI)

- Pays C&W as main U.S. lawyer, including head of BCCI legal defense fund after BCCI indictment in Tampa in 1988; 1.
- Grants loans to Clifford for purchase of CCAH shares in 1986 2. & 1987:
 - sale of a portion of these shares results in a gross gain a. to Clifford of \$11,333,143;
 - Clifford still owns remaining shares in CCAH that were made possible with BCCI loans.
- 3. Grants Loans to Altman for purchase of CCAH shares in 1986 & 1987:
 - sale of a portion of these shares results in a gross gain a. to Altman of \$5,664,310;
 - Altman still owns remaining shares in CCAH that were made possible with BCCI loans.
- Gives CEW the power to appoint other attorney's for BCCI. For example, CEW frequently uses Milbank, Tweed as attorney for many BCCI transactions.
- paid Bert Lance to assist with BCCI with U.S. investments. 5.
- pays nominee shareholders to purchase CCAH which in turn owns 6. First American.

BILL McCCLLU FLCRICA

DANA RCHRABACHER, CALIFORNIA

MEMBERS

WILLAM BROCHAFELD, MICHIGAN CHRISTOPHER COX. CALIFORNIA CHRISTOPHER COX. CALIFORNIA POBERT DORNAM. CALIFORNIA POBERT DORNAM. CALIFORNIA GEORGE W GEVAS. PENNSYLVANIA BENJAMIN GILJAN. NEW YJRK POPTER GOSS. FLORIDA JIM LIGHTFOOT: OWN BOB LIVINGSTON, LOUISIANA DANIO D'OR MARTIN, NEW YORK FRANK D. RIGGS. CALIFORNIA JAMES F SENSEMBRENNER, R. WISCONSIN CLYMPIA I. SNOWE, MAINE C. W. BILL YOUNG, FLORIDA



TASK FORCE ON TERRORISM & UNCONVENTIONAL WARFARE

HOUSE REPUBLICAN RESEARCH COMMITTEE

U.S. HOUSE OF REPRESENTATIVES WASHINGTON, D.C. 20515

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Executive Summary BCCI - AN INTRODUCTION September 4, 1991

The attached paper will highlight the following facts relevant to the foundation and operation of the Bank of Commerce and Credit International (BCCI):

- BCCI was structured along the lines of many Near Eastern intelligence and security services, with an emphasis on providing "special services" to important clients. Indications are that this was intentional given the presence of large numbers of former intelligence and terrorist of ficials in its management positions.
- BCCI became involved in shielding the financial assets of top corrupt officials and in aiding them in "skimming off" funds from Western aid programs, as well as convincing those officials that he could protect them from the CIA by courting good relations with former Western leaders, including Jimmy Carter.
- BCCI slowly began infiltrating major foreign banks through a series of "shell game" transactions which allowed it to siphon off financial resources and manipulate foreign officials.
- BCCI controlled foreign officials, in part, by its use of the so-called "Black Network," which was created as the result of Abedi's close relationship to Abu Nidal and other terrorists, who the bank help to finance.
- BCCI's involvement in arms sales peaked with its facilitating the delivery of strategic weapons, including ballistic missiles, from China to such key clients as Saudi Arabia.
- The reaction to the collapse of BCCI in the Third World, has been one of blaming the West for its failure. Given the long history of nepotism, favoritism, and corruption in the Third World, particularly in the Middle East, as an accepted part of normal business practice, BCCI was therefore viewed as a legitimate business organization. This helped to lend credence to the idea that the West conspired to ruin BCCI as its power and influence became more apparent.

BILL McCC. JM. FLORICA

DANA ROHRABACHER, CALIFORNIA CO-CHARMAN

WEWBEPS

WEVERS
WILLIAM BROOMFELD MICHGAN
CHRISTOPHER COX. CALIFORNIA
JOHN 1 COLUTTIE. CALIFORNIA
ROBERT DORNAN CALIFORNIA
GEORGE W GEAS. PENNSYLVANIA
BENLAMIN GILVAN, NEW Y.GK
POTTER GOSS F.CORICA
JIM LIGHTFOCT, IGWA
BOB LIVINGSTON, LOUISLANA
DAVID O'R WARTIN, NEW YORK
FRANK J. AIGGS. CALIFORNIA
JAMES F SENSEWREWER JR. WISCOSSIN
CLYMPA J. SNOWE, WAINE
C. W BILL YOUNG, FLORICA



TASK FORCE ON TERRORISM & UNCONVENTIONAL WARFARE

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BCCI - An Introduction

September 4, 1991

VAUGHN S. FORRE YOSSEF BODANS JAMES E. GEOFFRE

1622 LONGWORTH BU

The Bank of Commerce and Credit International (BCCI) was to be a prototype of the "big business" that would reassert the prominence of the Muslim and Third Worlds in the international community and contribute to the solution of the profound crisis facing them. Consequently, a strong anti-imperialist profile was an important part of BCCI's identity, while inwardly, BCCI was to establish Islamic Banking as the financial system for the Third World.

Thus, although BCCI operated in the West, (indeed its main -- financial "irregularities" were committed in the UK and the US), it was always a quintessential Muslim Third World institution. As such, it was driven and motivated by a certain ideological commitment and a religious sense of purpose. This ideological background provides the key to understanding the logic behind the criminal activities of BCCI, its principals and its main clients.

The source of the philosophy of BCCI was the ideology of its founder, Agha Hassan Abedi and many of his close associates, including the Gokal brothers. All are Indian-born Shi'ites and believers in Sufi mysticism. The roots of their families are in the same tight Shi'ite community as Khomeyni's forefathers. In addition, Abu-Dhabi's ruler, Shaykh Zayid al-Nahyan, an illiterate but devout Muslim, is also a believer in mysticism as well as in the divine destiny of his family. In the 1960s, Al-Nayhan used to hunt in Pakistani Baluchistan under the protection of a senior official of Pakistan's intelligence named A.B. Awan, who also took him to several darwishes and mystics in Pakistan. It was through these contacts that Abedi met Shaykh al-Nahyan and established the friendship and ultimately the partnership that became BCCI. (Abedi and al-Nahyan later reciprocated A.B. Awan's services by nominating his son, Amjad Awan, to a lucrative and sensitive position in BCCI -- Noriega's banker.) Indeed, all the principals of BCCI operated, at least initially, within the culture of the Near East elite.

As of the early-1980s, when BCCI's "specialized operations" expanded and became the bank's primary source of revenues, it was structured more like Near Eastern intelligence and security services than the international banking conglomerate it claimed

to be. This was not by accident in view of the distinct and strong presence of former and active senior intelligence-security and terrorist officials in leading positions of BCCI. One of these officials was the Saudi Shaykh Kamal Adham, "the godfather of Middle Eastern intelligence," (officially) a small investor in BCCI, who made a lot of money from bringing in other investors, mainly from Saudi Arabia and the Persian Gulf, and commissions from lucrative deals. Adham was instrumental in the structuring of BCCI as it was spreading into the Third World and allowed BCCI to maintain a very close relationship with the intelligence and security institutions of most of the Third World states where it operated.

When Abedi established BCCI, he was consumed with a commitment to the reassertion and reawakening of the Third World under the banner of revivalist Islam. His goal was not only to demonstrate that the Third World could create businesses comparable to the best the West had to offer but to pursue "a mission to build the world's biggest bank by the turn of the century." Moreover, he wanted the bank and its related financial empire to serve as the cornerstone for the "de-linking" of the Third World from the Western economic system and facilitate the "rejection" of the Western value system. He saw in the return to an economy based on the morality of revivalist Islam the only key to the salvation of the Third World.

In the meantime, the Iranian Revolution rejuvenated the Muslim World and incited both leaders and the masses to consider the politicized revival of Islam as a practical goal. The ideological blend of Third Worldism and revivalist Islam that Abedi believed in was becoming more popular as a result of the reverberations of the Iranian Revolution and Abedi was beginning to see himself as the champion and savior of the cause. A family friend of Abedi explained: "He wanted to be bigger than the bank, he wanted to control countries and heads of state, obliging them with jobs for relations, balances of payment help, gifts." Abedi became preoccupied with establishing relationships with Third World leaders and soon developed a solid and intricate network with the elite of the Near East and Africa. "They knew how to get to the top in Third World countries," explained a former customer. Later, Abedi would explain that he established the BCCI's financial empire on the basis of a belief in "goodness" and "that all religions and peoples are basically the same."

"I created the philosophy and the bank grew by itself," he recently rationalized. However, for this empire to function and accumulate profits and power, it was totally dependent on the will and whim of the Third World's absolute leaders and strongmen. Abedi was all too aware of this reality and quickly transformed the BCCI into an instrument optimized to serve them.

This meant establishing a financial system based on striving, corruption, and coercion.

"Force and favors, as determined among individuals through corruption," are the fundamentals of Arab and inter-Arab politics, explained David Price-Jones. "Corruption among Arabs is nothing more nor less than a daily functioning among everyone of the power-challenge dialectic, and it is registering individual advances and retreats everywhere and at all times. Corruption plays a role approximating to competition in a democracy. At the top of the social scale, corruption represents the power of the strong over the weak; at the bottom, however, it may soften the caprices of power and so promote tolerance." The financial empire built by Abedi and financed by Shaykh al-Nahyan was correspondingly structured to accommodate this reality. Thus, in the early-1980s, BCCI began expanding into the Third World as the need for the unique services it was willing to offer to leaders and strongmen grew.

In the meantime, since the mid-1970s, rampant corruption had been intensified by the oil glut that created the Golden Triangle: The West sought to make profits from "recycling" petro-dollars by selling everything possible to the Therd World. Meanwhile, Third World leaders sought to keep national and personal funds in the West. Consequently, the drive to ensure the mere flow of cash to the West developed a life of its own. Western governments, notably Washington, encouraged banks to assist this financial process by pumping additional money into the Third World in the form of additional loans not to further development, but simply to assure their liquidity as the flow of funds to the West was rapidly accelerating. Ultimately, the real role of the Western banks was "to save the funds that the Third World leaders had stolen from their governments and reloan them anew in order to make profits from both sides simultaneously."

In this situation, it did not take long for the Third World economy to begin collapsing. With the beginning of the debt crisis, Western, mainly US, banks hastily withdrew, but corruption remained. Consequently, a void was created at a time of growing need, (stimulated in part because of IMF supervision of Third World economies in return for new loans), for "special financial services" for Third World leaders to shelter and smuggle their fortunes. In this atmosphere, BCCI was born with services optimized for the leaders' needs. As a direct result of the simplification of the smuggling of money, the rates of skimming off the top reached new heights. BCCI also offered new sources of personal fortunes such as easier methods to steal from Western humanitarian and international assistance funds channelled via BCCI.

Little wonder that Third World corruption continued to expand to the point of political rationalization. African leaders blamed the industrialized West for the phenomena. They argued that in its desire to sell, the West purposefully refused to develop indigenous industries in the Third World. Lacking proper industrial and economic systems, explained a Nigerian intellectual, local educated elites "are essentially pushed into the role of intermediaries between the foreign industrialists and investors and their governments. The 10% or 20% taken in the process are the salaries demanded by the bourgeois elite at the expense of the industrialized states" that continue to exploit the South. By the time the deal completes its transfer through the layers of officials and intermediaries, the bulk of the money has been skimmed off.

For example, in early-1988, Mabi Milumba, then the new Prime Minister of Zaire, pointed to the true extent of corruption: A foreign industrialization project was expected to make 200m francs in 1987 of which the Zairian Government was to get 100m francs. Ultimately, the government collected only 5m francs! The rest was skimmed off by several layers of officials, President Mobuto included, and smuggled out of the country.

* * *

Since the early-1980s, in his drive to expand and consolidate his power position in the Third World, Abedi has become more and more infatuated with local leaders and the establishment of some form of hold over them. Consequently, by the late-1980s, BCCI provided the following financial "services" for leaders (and their countries / businesses):

- 1. Access to easy development loans for favorite projects which financing was organized and documented so that it would be easy and safe to skim off the top at the source.
- 2. Place of hiding for excess cash, for both personal and for funds skimmed from IMF allocations.
- 3. "Imaginative accounting" of Western assistance money to conceal bribery, over-pricing, etc.
 - 4. Simplified smuggling of excess cash from the Third World to the West for shelters ("rainy day funds") especially from countries where such transactions are illegal.
 - 5. Production of deniable and/or false financial reports for international bodies such as the IMF on budget management, especially via local banks and institutions BCCI partially owned.
 - 6. Deniable and concealed transfer of funds for major national transactions, especially weapons and intelligence deals, in return for massive profits.

- 7. Laundering funds for personal use of leaders (from drugs, stealing, bribery, etc.) and their transfer to legal shelters in the West.
- 8. The "protection" of leaders from the CIA through good relations with notables in Washington such as former President Carter. (In a society where everything is arranged through informal contacts with the all-powerful, just being seen in the company of President Carter signalled to the Third World leaders that Abedi could "deliver" Washington.)

The pattern of the corruption that would lead to the bank's collapse was to exploit the unique nature of the source of deposits available to BCCI to virtually empty the bank's holdings. BCCI operated off of major large-sum dirty deals that involved the quiet shifting of large sums around the world so that delays were acceptable. Consequently, BCCI could shift the funds in transition through the bank at any given time through an elaborate web of "shell game transactions" instead of cashing no-longer-existing deposits or holdings. By taking over, directly and through front-men, banks in various Third World countries, BCCI could then not only use them to expedite the smuggling of funds, but also use funds from legitimate deposits as a source of money for the shell game rotation.

Abedi fully exploited the illegality of the vast majority of the bank's businesses to further push his audacious schemes. He knew that most of his clients and victims could not afford to complain openly and/or were incapable of doing so. The local banks partially owned, but totally controlled, by BCCI held large segments of various Third World state's foreign reserves which were deposited and then used as collateral for the "behavior" of governments and leaders. Moreover, these leaders were in no position to threaten BCCI because of its access to, and use of, terrorism and the Black Network.

Meanwhile, the early-1980s saw a growing intimate relationship between international terrorism, especially Syrian controlled Lebanon-based networks, and the main channels for the handling of petro-dollars from the Persian Gulf. Former French internal security officer Daniel Burdan considers the mixture of money and politics, characterized by corruption and convoluted business deals, as "the engine of terrorism." This relationship grew particularly out of the ability of Lebanese businesses to adapt to the needs of different clients without losing their identity.

For example, for quite sometime a single French banker in Beirut was handling and overseeing the bank accounts of most of Lebanon's diversified and rival groups (Maronites, PLO, Druze, etc.). These groups knew that trust and good management of money was essential and therefore preferred to work with a trusted individual of proven quality irrespective of his politics. "Money

is the nerve center of the war," explained the French banker.

Daniel Burdan explains the symbiotic relationship between radical terrorists and conservative Gulf Shaykhs in a common financial interest. The unbelievable income of the terrorist leaders and their supporting governments (mainly Syrian leaders) are laundered by businessmen in circuitous deals where the dirty money is mixed-up with petro-dollars and then invested in Western Europe and the US in legitimate businesses and frequently in real estate. This cooperation is sustained despite Syria's known involvement in, and support for, various radical subversive groups seeking to overthrow the regimes in the Persian Gulf.

Thus, BCCI stepped into the "booming" business of handling and laundering terrorist and drug money because of its close and unique relations with the Gulf Shaykhs and Emirs. BCCI had a special advantage over European banks that served as a special attraction to the terrorists, namely its impeccable Islamic credentials and relations with Iran. Shaykh Zayid al-Nahyan sought to consolidate these relations by establishing ADIA (Abu-Dhabi Investment Authority), as a joint company with the Libyan Treasury Secretariat and the Kuwaiti Ministry of Finance. Libya soon assumed financial prominence, being a major source of both terrorist and petro-dollar funds.

The management of ADIA was handled as a partially owned subsidiary of BCCI. This aspect is extremely important, as Iran, Syria, and Libya have been tightly controlling the emerging new system of international terrorism while several terrorist leaders were claiming and insisting on Islamic legitimacy.

Thus, despite the seeming diversity of its world-wide operations, as well as those of BCCI's subsidiary and "related" organizations, the truly important operations were conducted in a highly centralized manner under the tight control of Abedi, Naqvi and a few close friends, the vast majority of them Shi'ites based in Pakistan. Moreover, although the bulk of the capital came from Abu-Dhabi and other Gulf sources, the BCCI center in Pakistan was the dominant center of the entire BCCI network.

Thus, underneath the tight centralized control hub, the BCCI web of operations was organized in 5 main arms:

- 1. BCC(E) -- a relatively clean bank and financial institution established primarily to shield money of Shaykh Zayid al-Nahyan and his important friends in the Persian Gulf states, as well as the financial instrument to transfer to them the money stolen and/or skimmed off on their behalf from the holdings and assets of the BCCI.
- 2. A myriad of investment companies in the Netherlands and Dutch Antilles to be used by, and in cooperation with, several Arab

"investors" (many of them only fronting for BCCI's capital) as an instrument of "legal" penetration into the US banking system. Initially, the BCCI "legal" banking activities in the US, and especially Washington D.C., were aimed at generating political relationships and powerful contacts with leaders and dignitaries to be exploited in the Third World. (Other Abedi designs such as the channeling of laundered money into the US were at a very early stage of implementation, if at all, at the time of scandal.)

- 3. BCCI (Holdings) S.A. registered in Luxembourg with headquarters in London a relatively respectable international banking institution with companies and branches in New York, London, and other European financial centers as well as the Third World. It served as a formal front for BCCI as well as the primary outlet, and instrument for extraction, dispersal, and investment of already laundered money.
- 4. BCCI(0) registered in the Cayman Islands the "dirty bank" component of BCCI. It was a functional myriad of banking institutions primarily in the Third World (and Florida) as well as the instrument of control over forbign banks partially owned by BCCI. BCCI(0) was optimized for dealing with the "dirty money" and other special financial needs of its primary clients, leaders and notables. The financial relations with foreign intelligence services, including the CIA, were conducted through BCCI(0).
- 5. BCCI(P), a.k.a. the Black Network -- the heart of Abedi's empire building drive. It was the center of coordination with terrorists, companies with specialized services (such as the Gokal shipping empire, the Chinese weapons industries, etc.), companies co-owned with other countries (such as Iran, Libya, etc.), weapons and technology suppliers and buyers, the supplies of drugs, alcohol and prostitutes to favorite clients and objects of extortion (Rif'at Assad and the Bhutto brothers provided these services to BCCI), and other illegal activities. The meaningful relations with foreign intelligence services, mainly Arab and in the Third World, were conducted via BCCI(P).

The importance and centrality of the special services (ranging from embezzlement, to money smuggling, to weapons delivery, and to the supply of special requests) to Abedi can be deduced from the extent to which the BCCI financial empire was organized to meet the needs of its "special activities." Thus, relations between BCCI were branches organized to fit the primary flow of funds. For example, in the case of handling drug money, the Florida branch was made subservient to the Panama branch, and the Bahamas branch was subservient to the Colombia branch.

Similarly, for the BCCI-owned banks in Third World countries, BCCI(0) has a functional organization where the flow of authority (and funds) is determined by Islamic political considerations and

not mere economic realities. In Nigeria, for example, the channelling of funds was handled in an indirect way to assist the Muslim north of the country to increase its power by enabling it to artificially control large amounts of foreign currency and the major flow of illegal funds. The local BCCI(N) was established in 1979 by Hajj Ibrahim Dasuki, a Muslim leader who has since become the Sultan of Sokoto, the leader of Nigeria's Muslim community. BCCI(H) S.A. owned 40% of BCC(N).

The underlining objective was to elevate the economic power and influence of the Muslim community in the backward and discriminated against northern provinces. Every means were justified. Thus, a few years later, using connections provided by BCCI(O), BCCI(N) was serving as the financial and organizational center for Nigeria's booming smuggling and drug-trafficking business that soon became one of the world's largest. The safety of the illegal funds and the ease of their laundering with petro-dollars, services provided largely by BCCI, were among the primary factors in the rise of Nigeria as a center for drug smuggling.

Meanwhile, BCCI(O), directly and through BCCI(N), intensified its relentless campaign to Islamicize Nigeria. In 1989, BCCI poured \$1.0b into Nigeria, ostensibly as a "development loan," in order to bolster the economic and political power of the Muslims after anti-Muslim riots. However, a closer examination of the BCCI-supported projects shows that they were politically dominated rather than aimed at the betterment of the dire conditions of the local Muslims. The majority of the funds (not spent of bribery etc.) were spent on the building of Nigeria's National Mosque, one of Africa's largest and richest, and a host of Islamic Centers in Abuja, Nigeria's new federal capital. The completion of the mosque was celebrated in a huge conference on Islam in Africa in late-November 1989 where tens of thousands of participants were brought in from all over Africa to demand power and recognition.

The impact of this on Nigeria's politics and power distribution was immense. Nigerian Muslim activist Bilkisu Yusuf emphasized that as a result of this effort, "the Northernization and Islamization of Abuja have been apparent" throughout Nigeria. She pointed out that, as a consequence, "Islamic influence may erode ... the 'secular' capital city" and transform the character of Nigeria.

The leaders of Nigeria, largely Christian Yorubas from the south-west, know very well what is happening. However, in return for allowing these Muslim activities, BCCI(O), directly and via BCCI(N), has assisted them in transferring illegal funds to safe accounts in London. The funds smuggled from Nigeria were both the fruit of personal corruption and national funds taken in violation of IMF guidelines to be used to buy weapons and other

forbidden goods, many with the help of BCCI(P). Little wonder, therefore, that despite the BCCI crisis, BCCI(N) continues to function in Nigeria, but now under the name of the African International Bank. BCCI(N) general manager Abdullahi Mahmud, a Dasuki loyalist, retains his position with the AIB. Money is collected from other Nigerian banks and from fund raising among Muslims in order to replace the BCCI funds.

Thus, the key to the success and durability of the BCCI financial empire (actually amazing considering that the bank's principals alone embezzled some \$15.0b from its assets) can be attributed to the workings of its inner core of "special services." Although these special services constituted the vast majority of the business of BCCI, they were concealed in a myriad of seemingly legal and proper financial activities. The level of inter-relationship between the various arms of BCCI and the extent of compartmentalization of the special activities of BCCI(P) protected the bank for a long time. Most, if not all, of the managers and high level officials in the various branches did not really know much about what was going on, especially about the nature of the relationship with the "special" accounts, "creative paperwork", the Black Network, etc.

Throughout the BCCI empire there were a few representatives of BCCI(P) concealed in each major branch dealing with major and special clients. A knowledgeable Pakistani compared these BCCI(P) representatives to the brain, skeleton and nerve system of the body combined. These representatives were authorized to deal with "real business," but not to make decisions. Their primary tasks were to keep in touch with the clients, promptly report to Karachi and London any request or development, and subsequently promptly participate in the implementation of the decisions from above. Key decisions were reached in personal meetings between the client (his representatives/agents) and key BCCI officials, all of them Pakistanis and Arabs, that took place in London, Geneva and other West European centers. Meetings rarely took place in the client's home country for safety reasons. Additional steps were handled and/or facilitated and expedited by the BCCI(P) representatives in the countries in question as needed and as agreed upon in high level meetings.

Abedi personally supervised the workings of his network and saw to the satisfaction of his special clients in his frequent trips throughout the Third World. In order to remove suspicion and add to the respectability and honor of BCCI, and its local clients, Abedi brought with him VIPs such as former President Carter and several Gulf Shaykhs on almost all his trips.

At the heart of Abedi's empire building effort was the so-called "Black Network," a cover name for a myriad of illegal

activities on behalf of BCCI's most favorite regimes and rulers ranging from illegal arms acquisition and transfer to support for, and use of, international terrorism. As Abedi was developing closer relations with many Third World leaders, he learned of their "special needs" beyond flexible financing. These primary customers had other activities that involved large sums of money such as arms deals, recovery and handling of drug money, handling and transfer of cash and valuables overseas, personal need for drugs and prostitutes, etc. Many leaders were eager and willing to pay handsomely for the satisfaction of these needs.

Meanwhile, Abedi was making his first contacts with radical Palestinian terrorists. Gulf rulers who were supporting terrorists urged BCCI to help finance the terrorists in the name of Muslim solidarity. Needless to say, it did not take Abedi long to learn of the other, profitable, side of radical Palestinian terrorism. By the early-1980s, Sabri Al-Banna (Abu-Nidal) was extorting money from rich Arabs in Europe, and many diplomats, especially representatives of Kuwait and the United Arab Emirates, had bought his "protection." BCCI enjoyed the fruits of these operations by handling Abu-Nidal's extortion money.

As the scope of "services" BCCI was providing its clients expanded, it asked terrorists for assistance in operating against "uncooperative clients" or the enemies of good clients in such issues as blackmail, "settle accounts" for leaders, and collect financial debts, etc. BCCI(P)'s relations with terrorist organizations were institutionalized in the early-1980s when Abedi established relations with Sabri al-Banna through the mediation and recommendation of Libya and Pakistan. Abu-Nidal was essentially "contracted" to provide specific services. Atif Abu-Bakr, Abu-Nidal's ex-deputy, explained that the Fatah Revolutionary Council got a major boost in 1982 and soon began recruiting candidates for its expert-terrorist cadres (intended to work in the West) in several countries, primarily Pakistan. Simultaneously, the organization was becoming a for-hire enterprise.

From this, there expanded cooperation between BCCI(P) and Abu-Nidal, who was now contracted to be available for special tasks for BCCI's key customers on a regular basis as an integral part of the favors and special services provided by Abedi in return for business, access, contacts, etc. These favors were also used as a reminder to the clients of BCCI's long reach. Before long, these activities became a major activity of the Fatah Revolutionary council. "Behind the soldier there is a businessman," explained Atif Abu-Bakr. "Abu-Nidal opened up commercial branches in London, Athens, and Cyprus." Atif Abu-Bakr explained that as of the mid-1980s, Abu-Nidal "just works for the highest bidder."

Meanwhile, BCCI assisted the terrorists with their financial

needs. Ghassam Ahmad Qassim, the manager of BCCI's Sloan Street branch in London, explained that "the terrorist accounts had been set up with the knowledge of senior officials within BCCI." Abu-Nidal had several accounts used to retrieve extortion funds, transfer funds as well as manage various arms procurement and transfer projects with radical Arab countries. Significantly, in November 1989, Abu-Nidal's rivals accused him of taking on "contracts" for non-Palestinian issues at the expense of their struggle.

With the effectiveness of BCCI's "special services" growing, regimes and leaders wanted their own operatives to take part in these operations to ensure that their vested interests were being protected. Not having operatives of their own, Gulf Shaykhs and Emirs asked the Government of Pakistan, with whom they already had security arrangements, to send representatives to BCCI. Abedi, long a confidant and admirer of Zia ul-Haq, was overjoyed with this development. Consequently, operatives and experts from Pakistan's ISI (both seconded active service and recently retired) as well as other Arab experts contracted by Shaykh Adham, joined the special activities of BCCI(P) and vastly expanded the scope of expertise available to its special clients. From this, the Black Network—emerged.

Thus, in the mid-1980s, BCCI became an important instrument for facilitating major arms deals throughout the Third World. Again, BCCI's leading role has grown from a series of favors Abedi did to some of his favorite clients and friends into a major enterprise. BCCI shielded the transfer of funds from countries to sources of weapons in order to conceal certain deals and acquisitions, Abu-Dhabi provided false end user certificates to many of Abedi's clients to facilitate otherwise forbidden sales, and Abedi arranged for the Gokal brothers to provide discrete shipping. Clients were very happy with the BCCI(P) handling of these deals, even though the bank was officially charging a large overhead fee in addition to special payments extracted from the producers and sellers as well as the usual in-house skimming off the top accomplished through "creative documentation" during the deniable handling of the money.

For example, BCCI(P) established itself as a "representative" of several Italian weapons manufacturers in the Third World. With the help of ISI and Saudi Intelligence, BCCI(P) established relations with Italian arms manufacturers to facilitate the financial aspects of the supply of land mines and other military equipment to the Afghan mujahideen via Pakistan. BCCI(P) exploited this exposure to build a wider arrangement whereupon BCCI(P) was representing Italian companies in several Third World countries, including facilitating deniable "forbidden" transactions (for example with Iran and Libya), as well as "roughing up" competitors to clear the way for "official" deals for the Italian companies that would then be financed via BCCI.

Similarly, by providing tempting financial conditions, BCCI was instrumental in enabling Abedi's close friend Asaf Ali to establish a firm hold over the Third World market for Dassault Mirages (both new and used) and other aircraft. BCCI made exorbitant profits from overhead on overpriced spares and munitions, refurbishment and upgrading of used Mirages in Pakistan, and, in Arab and African countries, the providing of ex-Pakistani Air Force personnel as advisers.

The involvement of BCCI in weapons deals peaked with its comprehensive service for the covert delivery of strategic weapons. For example, BCCI(P) was responsible for the secret delivery of ballistic and anti-shipping missiles from the PRC to key clients such as Saudi Arabia. In this case, the deal was reached between senior Saudi and Chinese officials through the mediation of Pakistan. After that, the Saudis "buried" the required funds in a host of accounts in BCC(E) and BCCI-related companies that were ultimately delivered to the PRC through several BCCI accounts in Hong Kong.

Soon afterward, BCCI(P) arranged for the delivery of the missiles along with several Chinese and Pakistani experts in indirect ways on several ships owned by the Gokal brothers. BCCI(P) made huge profits through high overhead, as well as unofficial skimming, in each and every step of the transaction. The PRC preferred to conduct its export arms deals via BCCI(P) because the bank looked the other way when, according to some Pakistanis, the Chinese over-priced their weapons. Thus, the BCCI(P) involvement in discrete weapons acquisition had evolved by the mid-1980s into a major role in the financing and handling of the acquisition of nuclear technology by Pakistan and later also by Iran.

Although BCCI kept the specifics of most of its weapons deals highly confidential, Abedi established an aura as the guardian of the Third World. He spread enough rumors and hints about his key contribution to such issues as the "Islamic bomb" or the overcoming of the Western refusal to provide high quality weapons to the developing world. This image of Abedi and BCCI as the champions of Third World revival and honor, and not the dire economic implication of BCCI's collapse, dominated the reaction in the Third World to the BCCI scandal.

The drive on BCCI is part of "a fierce campaign gaining momentum these days and aiming to besiege elements of Islamic potential," according to Hassan Turabi, the Sudanese secretary general of the Arab and Islamic Peoples' Conference. "The bank had been flourishing and, from the view of the superpowers, had surpassed the limits they have set" for Muslim institutions, Turabi said. "It is a huge Jewish conspiracy," argued a Pakistani official. "The Jews backed by Americans don't want to see a Muslim bank flourish."

For the US, and the West, the ramifications of this reaction in the Third World are grave because not only is imperialism (the US) being blamed for a major economic crisis in an already devastated part of the world, but BCCI's association with Islam as the motive for Third World revivalism would serve to further enhance the influence of activist anti-Western Islam as the dominant ideology of the Third World and, consequently, would incite more youth to join the anti-US terrorist organizations that openly identified with BCCI.

- by Yossef Bodansky & Vaughn S. Forrest

(This paper may not necessarily reflect the views of all of the Members of the Republican Task Force on Terrorism and Unconventional Warfare. It is intended to provoke discussion and debate.)

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Executive Summary BCCI - BETWEEN PERU AND WASHINGTON, D.C. September 10, 1991

The attached paper will highlight the following facts relevant to Bank of Credit and Commerce International (BCCI) operations in Peru and their connection to the United States:

-Since the mid-1980's, the Bank of Credit and Commerce International (BCCI) has played a crucial, if primarily supportive role, in the expansion and consolidation of Peruvian-narcoterrorism and in solidifying its Connections to international terrorism as a whole.

-During the administration of Peruvian President Allan Garcia, BCCI's banking procedures formed the core of Peruvian economic policy, with as much as 25% of the country's hard currency reserves being deposited with the bank.

-The Peruvian Government was instrumental in helping facilitate BCCI involvement in international arms deals, with Peruvian brokers often providing bank officials with false end user certificates for several major arms transactions.

-Despite its otherwise puritanical ideology, the <u>Sendero Luminoso</u> (Shining Path) guerrillas organization formed an alliance with Peruvian drug lords in order to facilitate the "demoralization of the 'Yankee imperialists.'"

-With the assistance of the <u>Sendero Luminoso</u> (Shining Path) organization, Peru's coca growing regions - "liberated areas" - have developed into states within a state, thereby facilitating their evolution into the world's primary source of cocaine.

their evolution into the world's primary source of cocaine.

-With BCCI financial assistance, and with the tactical help of the Abu-Nidal Organization, the Shining Path organization has expanded its operations to include urban warfare and terrorism.

-Operating through the Peruvian "liberated areas," and at

-Operating through the Peruvian "liberated areas," and at the urging of terrorist supporting states like Syria and Iran, the Abu-Nidal Organization has established new access routes into the United States to help facilitate its setting up of a terrorist infrastructure on American soil.

The implications of the points outlined extend beyond the immediate issue of BCCI for they point to the failure of the United States Government to deal with the rise of de facto "states within states" and the need to confront them as states as well as simply criminal organizations.

Executive Summary cont. BCCI - BETWEEN PERU AND WASHINGTON, D.C. September 10, 1991

Each component of the "state within a state;" narcotics traffickers, international terrorists and native Marxist insurgencies, is a threat with which American foreign policy has failed to come grips because it neglects to approach them in a comprehensive manner. The failure to treat the three components of the "state within a state" as a single "mega-state" has led to a consistent underestimation of the threat to Western interests.

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BCCI - BETWEEN PERU AND WASHINGTON, D.C.

September 10, 1991

Beginning in the late 1970s, it becare imperative for Agha Hassan Abedi, BCCI's head and founder, to have a whole banking system and financial infrastructure through which he could rotate money inside the US for the support of his clients, allies and proteges. In this situation, the acquisition of 1st American, the 1st American of Georgia (National Bank of Georgia), the Independence Bank (Encino CA), and the rapid rush to buy interest in additional banks was intended primarily to expand the financial support network of the BCCI global empire. Moreover, the availability of secure local sources of money, it was expected, would significantly help in expediting major terrorist operations inside the US by providing easy access to cash, the sources of which would be well concealed by BCCI's convoluted paperwork.

In this context, Peru has rapidly become a major springboard for the infiltration of key terrorist personnel and equipment into the US. Consequently, a terrorist infrastructure has been joined onto a rapidly growing narcoterrorist system. In fact, since the mid-1980s, BCCI has played a crucial role, albeit a supportive one, in the consolidation and expansion of Peruvian narcoterrorism and in its cooperation with international terrorist operations, especially the Abu-Nidal Organization. In the process, BCCI has contributed to the subversion of Peru as a fledgling democracy.

The role and involvement of BCCI in Peruvian narcoterrorism was most significant in several distinct areas ranging from Presidential policies to educating terrorists. Indeed, BCCI's banking procedures constituted an integral factor in the economic policies of President Alan Garcia (1985-1990) during his term of office. In return, President Garcia has been able to maintain a standard of living way beyond what his official annual salary of \$18,000 would normally permit. Indeed, on 16 August 1991, the Peruvian House of Representatives officially accused President

Garcia of "looting the country of as much as \$50 million and moving that money through Bank of Credit offices into foreign bank accounts."

This sum is cited merely because, to-date, the transfer of some \$50m in personal funds from Lima to an assortment of Panamanian bank accounts in the name of the President's wife via BCCI has been traced. The full extent of Garcia's personal fortune is still unclear, but the source of his wealth is mainly plundered assets of the national treasury, especially skimmed off funds deposited in BCCI, pay-back interest on Peruvian official deposits, and payment for "special services" rendered to BCCI and its special customers.

The most overt involvement of BCCI in the Peruvian economy centered around the deposit of around 25% of the national hard currency reserves in BCCI during 1985-87. In order to expedite the execution of the deal, BCCI paid \$3m to two officials to carry out the transfer, (ignoring legal prohibitions on the depositing of more than 10% of those reserves in one bank,) as well as overlook the shipping of these funds to BCCI's Panama branches. Garcia knew about both the illegal deposits and the bribe paid to his senior officials.

Using these funds as collateral, BCCI then assisted Garcia in "taking on" the IMF with "favorable loans" totalling about half the deposits. In reality, these loans were made at extremely high rates (average of 1.5% above standing rates), especially in view of the huge collateral. Moreover, when Garcia announced that Peru would not abide by the debt repayment schedule mandated by the IMF, BCCI concealed Peruvian assets overseas in a web of artificial and bogus companies and accounts to prevent their seizure by creditors. Reportedly, Garcia received a share of all of these transactions. Subsequently, in 1987, Peru withdrew its national reserves from BCCI accounts after a political storm resulted from public accusations of pay-offs to high officials.

Also of significance were the "special services" provided by Peru to BCCI, which were crucial to the success of BCCI's involvement in international arms deals. For example, Peru provided the arms brokers of BCCI(P) with false end user certificates for several major weapons deals. In one case, Asaf Ali, a friend of Abedi and a major arms dealer in the Third World, frequently used Peruvian end user certificates in his acquisition of Dassault Mirage combat aircraft and related equipment for his major customers, including the Gulf States, Libya and Pakistan.

Most important and indicative of BCCI's impact on Peru's state policies was its facilitation of the subversion from above of Peru's national anti-drug policy. Indeed, the primary reason that

Peru is rapidly becoming the world's primary source of cocaine is that the narcoterrorists have been able to, since the Garcia Presidency in the mid-1980's, transform the country's coca growing regions into a state within a state.

Former Peruvian official Gabriela Tarazona-Sevillano argues that Peru's ability to prevent the expansion of the narcoterrorist's power "is further aggravated by the state's refusal to acknowledge and address narcoterrorism as a single social, military, and political entity." In 1988, she points out, government officials "realized that the fight against narcoterrorism was being lost, largely because there was no comprehensive program to counter it." These observations are highly significant because the formulation of Peru's drug policy, the declaration of a state of emergency in certain regions, and the allocation of forces and assets to the war on narcoterrorism were all concentrated in, and handled from, the office of the president. Thus, Garcia was instrumental, if not decisive, in preventing the consolidation of a cohesive and effective anti-drug policy and anti-terrorist strategy in the crucial years of the consolidation and entrenchment of the narcoterrorist infrastructure.

Thus, the magnitude of Peruvian drug exports has significantly increased since the late-1980s as a direct result of the close alliance between the drug lords and the <u>Sendero Luminoso</u> (Shining Path or SL; full name <u>Partido Comunista del Peru por el Sendero Luminoso del Pensamiento de Jose Carlos <u>Mariatequi</u> - Communist Part of Peru on the Shining Path of the Thought of Jose Carlos Mariategui), a quasi-Maoist terrorist organization under the absolute control and ideological guidance of Abimael Guzman (a.k.a. President Gonzalo). In the mid-1980s, Guzman justified to his followers the close alliance with Peru's drug mafia on the basis of support for Peru's oppressed peasants. The result has been that Peru's drug industry has expanded tremendously, via the combination of a criminal network underpinned by ideological commitment.</u>

With this criminal-ideological basis in place, Guzman's closest aide, Osman Morote, began opening <u>Sendero Luminoso</u> (SL) operations into northeastern Peru, and especially the drug heartland of the Upper Huallaga Valley, in 1984. In 1985, the SL established a permanent armed presence on the fringes of other populated areas. Soon afterward the SL assaulted the government presence in these areas and began winning over the hearts and minds of the impoverished peasant population. Subsequently, in 1986-87, Guzman declared the valley a "liberated area," having expelled the police, army, and other government facilities.

In due course, the Upper Huallaga Valley became the heart of

Peru's cocaine-paste manufacturing and drug trafficking. Upon penetrating the valley, SL established a close alliance with the local drug lords. Juan Pablo Rosas Mesias, a mid-level electronics expert who defected from SL in mid-1989, highlighted the centrality of the alliance between the drug mafia and the SL: "One of Sendero's principal centers of operation is the Huallaga area where it receives the narcotraffickers' orders," he said. "While narcotrafficking exists, Sendero will not disappear."

Although the SL's ideology insists on a spartan puritanical life style, the SL leaders were convinced, to some extent by foreign ideological influences, that their support for the drug lords would significantly contribute to "the corrosion and demoralization of the Yankee imperialists." By the late-1980s, Gabriela Tarazona-Sevillano points out, "the Upper Huallaga Valley, in effect, had virtually become a state-within-a-state, governed by Sendero and supported economically by the cocaine producers."

Thus, at present, SL provides the drug mafia with vital services. As part of their anti-establishment struggle, SL forces repeatedly attacked and virtually disarmed the local security-and law enforcement forces. Consequently, the SL revolutionary assault on the Peruvian government has been transformed into direct assistance to the drug mafia by relentless attacks on police and other authority installations involved in anti-drug operations, as well as through the assassination of government officials, the blowing up of bridges and the blocking of roads, thus isolating the mafia "liberated zones" from the threat of attacks by government security forces while regulating commercial traffic into and out of those zones.

Meanwhile, the <u>Sendero Luminoso</u>, having started as protectors of the peasants, that is the coca growers, from the abuses of the drug mafia's strong men and gangs, as well as from the occasional anti-drug campaigns of the government, evolved into the representative of the population vis-a-vis the drug lords. Indeed, SL leaders have reached agreements on cooperation with the drug mafia that include assuring higher prices for the peasant's produce and facilitating the removal of most abusive gangs.

In return, SL became responsible for the uninterrupted and growing flow of coca leaves. Indeed, as an integral part of SL's education and agitation campaign to win the hearts and minds of the peasants, the SL organized the peasants and imposed a strict work regime and puritanical life style, more than doubling the production rates of coca leaves the Upper Huallaga Valley in the process. The massive education and indoctrination effort also reduced migration, crime rates and indiscipline among the peasants.

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Indeed, once a liberated area was established, it became imperative for the SL to ensure itself sole access to the local population, which in turn made the organization responsible for its welfare and for its crop. Indeed, SL forces now provide guards for coca processing facilities and local airstrips, safety from police raids, and assistance in all phases of coca processing and delivery. Consequently, by 1989, the Upper Huallaga Valley was the world's primary coca cultivation area and simultaneously it became the Sendero Luminoso's greatest base of popular support.

Thus, at present, the drug trade is at the heart of the SL's activities. "Narcotics trafficking has become the financier of the so-called 'armed struggle' which the <u>Sendero Luminoso</u> movement is carrying on," wrote <u>Fl Comercio</u> on 28 June 1990. Toward that end, "<u>Sendero Luminoso</u> has practically established total control of this 'business' in the Upper Huallaga Valley." The SL has also increased their cooperation and trade with "international drug mafias and hired assassins." The drug money and the safe havens have enabled the SL to increase the size of its armed force from 2,000-3,000 in 1983-4 to close to 10,000 by mid-1987, as well as improve the training of its professional units, and support expensive urban operations.

Its growing fortunes have also enabled <u>Sendero Luminoso</u> to expand its hold over the drug trade in Peru. The SL acquired sophisticated radio equipment for communications, monitoring and jamming of government communications and SL spies provided access to government codes and used the data they obtained to warn the drug mafias of impending government raids. Further, in 1991, there has been a further expansion of SL involvement in support of drug trafficking by guiding Colombian and local planes to isolated jungle strips. (Evidence of this became available when Peruvian security authorities recently exposed a network of mobile high-powered beacons used to guide planes to sites of choice.)

The SL has also introduced fixed payments for services provided to the drug planes. Each plane is charged \$10,000 per landing with security provided by SL detachments. Permits for purchase of drugs from local facilities cost an additional \$15,000, with the SL providing guidance and security to the drug trafficking crews. The money collected is used to further expand the drug trafficking support system with it estimated that 50% of the money goes to the SL's national budget, 40% to expand local SL infrastructure, and another 10% for local forces and the population. [El Comercio, 28 June 1990]

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It is within the context of the emerging "liberated areas" in the Upper Huallaga Valley that the SL, BCCI and the drug lords have

established a tripartite alliance. The estimated distribution of gains in 1988, for example, in itself explains BCCI's interest in Peru and its willingness to subvert the Garcia government to, in effect, self-paralyze its anti-drug policy.

In 1988, total income of the Peruvian drug lords was around \$28b. Of this, the growers were paid \$0.24b (0.86%), the local traffickers \$7.236b (25.84%), and the international traffickers \$20.524b (73.30%). BCCI handled most of these funds and SL was paid by the traffickers at least 1% of their gross income, thus totalling at least \$0.25-0.30b a year. The money collected by the SL itself in the Upper Huallaga Valley comes atop this sum.

The vast majority of the money paid to locals, in excess of \$7.0b a year, is returned to Peru. In order to fully exploit this asset, SL entered into money handling operations in Peru on behalf of the drug lords and in cooperation with BCCI in 1986-87. To handle these funds, Guzman established a separate "Department of Economic Works in the Armed Struggle" which is "in charge of all money transactions for the various areas of subversive activity." SL insists that "all business must be conducted in US dollars or in Intis [the Peruvian currency], but must be calculated at the daily exchange ratet" [El Comercio, 28 June 1990]

To facilitate this, SL forces first drove the national banks virtually out of the Upper Huallaga Valley and assumed responsibility for the financial services of the local population, and ultimately, the drug mafias. For example, in the town of Xion, SL is in charge of currency exchange. SL militants supervise the arrival of intermediaries with US Dollars in cash and the "fairness" of exchanges to Peruvian Intis. SL also supervises the payment, mainly in Intis, of the peasants and the bulk of the local traffickers (reportedly, except for their leaders) and then designates the money changers and agents with whom business can be done.

Consequently, SL has in effect assumed control over the bulk of the hard currency fuelling the local economy and commerce inside Peru. Because foreign exchange earnings from normal exports largely disappeared in Peru by the late-1980s, the bulk of Lima's economic establishment must rely on "narco-dollars" (Ocona dollars) to sustain operations, ensure imports, etc. These "narco-dollars" are acquired via SL and its agents. Currently, it is estimated that the "narco-dollars" constitute around 20% of Peru's legitimate GNP, compared to the 1.4% of the GNP that the legal exports constitute.

From its center in Panama, BCCI handled the other side of these financial arrangements beyond the mere laundering of drug money in the US. BCCI regulated the out-of-country flow of currency, the laundering and arrangements of "narco-dollar" accounts in

Peru, etc., all for sizable fees. As these SL-BCCI arrangements were further institutionalized, the cash factor was reduced with <u>Sendero Luminoso's</u> agents collecting Intis from interested parties in Lima and using them to pay the peasants and the local traffickers. BCCI then unfroze dollars from the drug lords' accounts in Panama for the purchase of imported goods. The exchange rates in these deals were extreme, thus maximizing the profits of the tripartite alliance. Needless to say, these arrangements have had a growing impact on Peru's economy since the national reserves were frozen as collateral for a BCCI loan and the local economy was starved for hard currency.

BCCI also contributed to the increase in the quality of weapons available to the SL by its handling of money transfers between Brazil and Peru. At first, these arrangement were used to ship chemicals and other equipment. For example, in early-1990, for the first time, police captured imported weapons, most notably Brazilian made Uru M-1 submachine guns, from the SL's urban units. The police believe that 300 Uru M-1s had already been smuggled into Peru by the Spring of 1990.

Further, intelligence data from Brazil suggests that some 3,000 machine guns were sold to the SL and drug barons. There are fundamental ideological ramifications to this development since the importation of weapons contradicts a revolutionary tenet of Mao and Guzman that guerillas only seize and capture their weapons from their enemies. Thus, the imports of the Brazilian submachine guns is a clear indication that the availability of easy drug money has caused cracks in the ideological purity of the SL.

The major impact of BCCI on the SL's military capabilities was in expediting the SL's adoption of urban warfare tactics and terrorism as of 1987. Indeed, urban operations have become so important to the SL that it has established an urban command. Further, in mid-1990, Peruvian police discovered that in 1989/1990, Guzman divided the SL into two equal branches: the Revolutionary Movement of the People's Defense, responsible for all terrorist activities in urban areas, and the veteran Revolutionary Front of the People's Defense, which is responsible for all activities in the rural area.

In any case, urban operations could not have taken place without the massive infusion of terrorist expertise and knowledge from veteran international terrorist organizations. Indeed, in early-1988, BCCI arranged for the Abu-Nidal Organization to begin helping the SL to consolidate their urban operations as well as provide training in advance techniques of sabotage. BCCI remained the connecting agency, and handled the funds for Abu-Nidal. Atif Abu-Bakr, Abu-Nidal's ex-deputy, explained: "In

1989, for example, he [Abu-Nidal] made more than \$4 million in Peru. Cocaine money, to be sure." This money was shipped via the London branches of BCCI. In all of this, the Abu-Nidal touch was immediately apparent with the SL's urban assassination techniques and tactics being virtually identical to those used by Palestinians and the West European terrorists trained by them.

The Abu-Nidal Organization was also involved in terrorist operations in Peru. A senior Abu-Nidal operative, Hussein Bouzidi, and two aides were arrested in Lima in the summer of 1988 following a bombing attempt on the US embassy. In April 1990, they were released after an intense campaign by the local PLO office and allowed to remain in country. Then, on 24 July 1990, there was an assassination attempt on Yaacov Hasson Ichab, the executive director of human relations for the Jewish community in Peru. The evidence collected, and the examination of method, tactics, and weapons used, suggested that the attack was carried out by "a Shining Path death squad" with the "participation of a clandestine cell of the radical Palestinian Abu Nidal group." Indeed, when arrested, Bouzidi had a hit list in his possession that included Hasson's name.

Urban operations have thus become integral to the SL strategy. The SL terrorist campaign in Lima and other towns in connection with the 1990 elections, while straining the organization's assets nearly to the breaking point, and while ultimately incapable of preventing the elections, did expose a solid and fairly well organized urban infrastructure with a growth potential given the allocation of the right assets.

This infrastructure was revitalized, on behalf of Arab causes, in connection with the Gulf Crisis. As of mid-January 1991, the SL led anti-US pro-Saddam Hussein demonstrations, complete with the burning in effigy of President Bush. In the following months, there were several bombing attacks on US diplomatic facilities, but no specific perpetrator among Peru's several urban communist terrorist movements emerged. On the basis of bomb technologies and techniques, SL operatives are nevertheless believed to have been responsible for some of these bombings.

In the meantime, under Alberto Fujimori, there has been a rejuvenation of the Peruvian war on the SL, but despite some localized initial success, the effort is still far from breaking the backbone of the narcoterrorism alliance, especially in the countryside. Indeed, in September 1990, there was a marked escalation in SL attacks on security forces. The SL did have some military problems because the organization seems to have overstretched its assets. Nevertheless, the SL is rapidly expanding its hold over the drug producing valleys and is intensifying its intimate alliance with the drug mafia.

It is in the valleys that the interests of international

terrorism such as those of the Abu-Nidal Organization really are. This stems, in part, from their <u>modus operandi</u>. In Islamist international terrorism, sophisticated operations are conducted by expert terrorists who infiltrate into a target country for the execution of specific operations. If needed, they also smuggle in the specialized equipment they might require.

However, by the mid 1980's, there was apprehension among the key terrorist states, mainly Libya, Syria, and Iran, that the United States might launch massive retaliatory action if they were discovered by American intelligence to have been involved in any act of terrorism on US soil. These states therefore began to assist their terrorist clients in an effort to establish access routes into the US outside of the normal diplomatic channels. Of these, Peru became a favorite access route, particularly for Abu-Nidal's group.

Thus, the "liberated areas" in Peru constitute safe havens with proven means of illegal transportation into the US. They serve all of BCCI's main interests; not just as instruments of vast financial gain but also as places for anti-imperialist activism. In this context, BCCI provides the narcoterrorists with vital-services such as the laundering and handling of funds overseas. Moreover, ideologically at least, even the <u>Sendero Luminoso</u> has a commitment to terrorism in the US because it is a member in the International Revolutionary Movement, a union of 19 radical-Maoist revolutionary organizations that includes the US Revolutionary Communist Party. The IRM's charter calls for mutual assistance in the pursuit of world revolution. Thus, with the SL's increasing funds and power, it seems increasingly likely that Guzman might now be tempted to assist those who are committed to the cause of America's destruction.

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(This paper may not necessarily reflect the views of all of the Members of the Republican Task Force on Terrorism and Unconventional Warfare. It is intended to provoke discussion and debate.)

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